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Management RECORD

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NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

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Management Record

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• In the Record •

Decentralization Reconsidered

In the postwar period, decentralization in American industry quickly became a habit—some claim, almost a fixation. Weighty tomes and endless lectures intoned its virtues. Inflation, taxes, and defense needs seemed to require it. Its opponents were few and unsung.

In recent years, however, the magical effect appears to be wearing off. Some managements have been talking about the need to recentralize—to tighten controls. Rebutting this attack, the advocates of decentralization argue that the trouble is not too much decentralization but its incorrect or partial application. In any event, most agree that a re-evaluation is needed.

A Conference Board Round Table undertook such a re-evaluation. Walter T. Lucking, president of the Arizona Public Service Company, says that "decentralization cannot be applied as a universal panacea." He suggests instead two principles of organization planning that are essential to effective management—eliminating excessive managerial levels and increasing the span of responsibility. While these are being put into effect, Mr. Lucking concludes "we might well bring into play some aspects of decentralization and . . . some factors of centralization."

Daniel L. Kurshan, director of administration of The Port of New York Authority, discusses the advantages of decentralization on product lines and analyzes the ways in which central staff can maintain adequate control in such an organization. Concluding the panel, Lounsbury S. Fish, assistant to the chairman of the board of Standard-Vacuum Oil Company, cites six advantages of decentralization and specifies the many changes in attitude, organization, and control required to make it effective. The Round Table begins on page 6.

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Developing Managers for Decentralized Operations

Not so long ago, it was suggested that the good boss—in a kind of father-figure role—developed his people primarily by a combination of counseling and maybe a little therapy. This process was supposed to produce the good managers that every company needs.

There was just one thing wrong with this approach: it often didn't work. But its failure resulted in a re-evaluation of management development in many companies. At Standard Oil (Ohio), for instance, O. A. Ohmann, the manager of the employee relations department, says, "We have moved from a man-centered to an operations-centered approach . . . which takes us out of the psychiatric business and puts us back in the oil business. . . ."

At Armco Steel, because of the company's great expansion since the war and because Armco is in transition from a functional-type organization to a division setup, management development has presented particularly urgent problems. Many managers needed to be trained in a minimum time. After looking into the more conventional approaches to management development, Armco decided upon a program that features six thirty-five minute films on "The Profession of Management." William Verity, director of organization planning and development at Armco, says that although the program is too new to give an evaluation, it is being well received, and management is optimistic about its success.

In contrast to Armco's new approach, the Du Pont organization's management development program has been functioning successfully over the years. Although changes are made from time to time, they are within the framework of the basic program. R. Carter Wellford, assistant to departmental management, stresses five aspects of management development at Du Pont: coaching and experience on the job; appraisal and discussion of performance; job rotation—cross-fertilization; off-the-job education; and business understanding.

This Round Table discussion starts on page 19.

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Phantom Stock Plans

Innovation and increasing flexibility seem to characterize what is happening in the area of the executive bonus. One example of this trend may be the phantom stock plan. Such a plan provides participants with some or all of the financial benefits of stock ownership without these executives actually owning any stock—and without such stock even being in existence. But what, one might ask, are the advantages of owning "dividend units" rather than actual shares? One, of course, is that the individual takes no risk; he may gain substantially but he cannot lose; and he gets paid cash dividends just as though he owned actual shares of stock. From the company's point of view, by paying a bonus in dividend units instead of in cash or stock, more money is retained in the business. And, if profitably employed, this money may earn enough to cover the cost of the cash "dividends" on the phantom stock. So everybody should be happy.

But the Board notes these plans, although introduced in the mid-Forties, are still relatively rare. Perhaps the reason is that one of the earliest was subject to litigation, and the court enjoined the company from issuing any additional stock units under the plan. However, late in 1959 the Supreme Court of Delaware upheld a similar plan—which would seem to give a green light to phantom stock.

In the article starting on the next page, five plans are examined, two of which tie in phantom stock with a regular stock option plan. The article also quotes extensively from the Delaware court's finding.

Phantom Stock Plans

Participants in these plans receive some or all of the financial benefits of stock ownership without actually owning any stock. Five plans are described

SINCE 1947, apparently there has been a trend toward greater participation of middle management in executive bonus plans.[1] Of the plans studied by The Conference Board in 1947, 70% covered the middle management group. In contrast, in the 1959 sample, 93% of the plans covered middle management. And since middle management includes many more individuals than top management, the actual increase in the number of participants is considerably greater than the above percentages indicate.

While it is difficult to distinguish between cause and effect, the greater participation of middle management in the bonus plans seems to have altered the plans to more nearly fit the needs of the changed composition of the bonus group.

The typical top executive, for example, has years of high-level earnings behind him. His children have most likely finished their schooling, have married, and have established their own homes. Thus, the current financial needs of the top executive are probably diminished, and he tends to be primarily concerned with planning for retirement, along with the accumulation of an estate.

The middle management executive, on the other hand, is more likely to have fewer years of high-level earnings behind him. His children are probably still in school and his primary needs are for high current income plus financial security for his family in case of untimely disability or death. In other words, while the middle management executive may be well aware of the financial needs of the future, his major concern is for the present.

With these facts in mind, consider the changes that have taken place in bonus plans. First there appears to be a trend toward greater flexibility in the administration of the plans, with more discretion given to the bonus committee. Also a growing number of plans provide for both current and deferred payments of the bonus. These changes, it appears, could have been motivated by the greater participation of middle management.

Another development, possibly related to the movement toward greater flexibility, is the emergence of the phantom or shadow stock plan. A phantom stock plan is one in which participants receive some or all of the financial benefits of stock ownership without actually owning the stock, or even, for that matter, without such stock actually being in existence.

[1] See "Trends in Executive Bonus Plans," *Management Record*, February, 1960, p. 12.

EARLY PHANTOM STOCK PLAN

One of the earliest known phantom stock plans was introduced in the mid-1940's. Under this plan, participating executives were granted "stock units," each with an original dollar value equivalent to the current market price of the stock. Thereafter, when the company paid a cash dividend, holders of the stock units received an amount equivalent to the dividend that they would have received if they had actually held shares. If there was a stock split or stock dividend, the assigned stock units were increased proportionately.

When the holder of stock units retired, the company paid him the difference, if any, between the stock unit's originally assigned value and the market value of the stock on a date, selected by the holder, between the date of retirement and two years after retirement. Thus, the retired holder of stock units could select any date within this two-year period when he thought the market price was the highest.

Here is how this plan would work in a hypothetical situation. Suppose an executive is granted a thousand stock units when the market price is $40 per share. If annual dividends are $2 per share, the executive receives $2,000 each year ($2 x 1,000 units) until retirement. After retirement, if the executive selects a date when the market price of the stock is $80 (or $40 above its original value), he is entitled to an additional payment of $40,000 ($40 x 1,000 units), which is paid over a period of ten years.

This plan was adopted by resolution of the board of directors, but it met stockholder resistance and was eventually subject to litigation. The court, in 1958, found no objection to the feature of the plan that provided for annual payments equivalent to dividends, but it did object to the provision awarding compensation based on the increased value of the common stock.[1] The court said, in part:

> "The market value of stock is governed by many factors unrelated to the services of employees of a corporation. It is common knowledge that the general state of the econ-

[1] *Berkwitz v. Humphrey*, 163 Federal Supplement 78.

omy of the country—the confidence or lack of confidence of investors—the cost of money—the supply of stock available in the market—inflationary or deflationary trends—the tendency of the market to discount the future and many other extraneous factors, play an important part in the fluctuations of the market. The earnings of a corporation are an important, if not the most important, element in the long-range action of the market. But inasmuch as other unrelated factors are considered by the investing public in its evaluation of shares of stock, it cannot be said that market value represents the intrinsic worth of a stock or that an increase in market value fairly reflects the value of services rendered by a corporation's key employees. . . .

"No serious objection could be made to the payment of additional current compensation based upon dividends multiplied by the number of units [phantom shares] held by an employee if such payments were the only additional compensation provided by the plan. Standing alone, such payments might well be regarded as representing a distribution of current earnings bearing a reasonable relation to the value of services rendered."

In its decision, the court enjoined the company from issuing any additional stock units under the plan in the future.

A SIMILAR PLAN

While this litigation was still pending, another company adopted a somewhat similar plan. Under this second plan, which was approved by stockholders, executives who fulfilled specified conditions were given stock units and were paid the equivalent of dividends on a deferred basis. In addition, in the ten-year period following termination, these executives (or their beneficiaries) were paid the difference between the value of the stock when the stock units were awarded, and the value of the stock on a selected date in a three-year period following termination. However, the market price on the selected date could not exceed the highest market price between the date of assignment and the date of termination of employment.

This plan also became subject to litigation. In late 1959, however, the Supreme Court of Delaware upheld this plan. Since this decision[1] has not received widespread publicity, the key portions are reproduced here:

"The Deferred Compensation Unit Plan . . . is to be held valid or invalid in accordance with the application of two fundamental rules of law as to which there can be no argument.

"[1] The first rule is that a plan for additional compensation of executives and employees is to be held valid only if consideration passes to the corporation at the time the plan is put into effect. *Gottlieb v. Heyden Chemical Corp.* 33 Del.Ch. 82, 90 A.2d 660; 33 Del.Ch. 177, 91 A.2d 57; *Kerbs v. California Eastern Airways, Inc.*, 33 Del.Ch. 69, 90 A.2d 652, 34 A.L.R.2d 839.

"[2] The second rule is that there must be a reasonable relation between the value of the benefit conferred by the plan upon the employee and the value to the corporation of the employee's service to it. *Kerbs v. California Eastern Airways, Inc.*, supra.

"[3] There is no doubt that the first rule is satisfied by this plan. Each employee participating in the plan is required to enter into a formal agreement to stay with the company for at least five years; to be a consultant for the company for at least ten years after retirement; never to compete with the company or become an employee of a competitor; and finally, inherent in the plan, that he remain with the company until retirement qualifies him for the benefits under the plan. Thus, the plan insures the retention of valued services, which is sufficient consideration passing to the company.

"The main thrust of plaintiff's argument, however, is directed toward the second rule. He argues that there is no reasonable relation between the value of the benefits conferred upon the employee by the plan and the value of his services to the company.

"Plaintiff does not attack the dividend credit provision of the plan, conceding that the income of the company upon which dividends are ultimately based bears a reasonable relation between the value of the dividends credited under the plan and the employee's services. He does attack, however, the feature of the plan which credits to the unit account of the employee the so-called excess market appreciation measured by the difference between the market value . . . at the time of termination of employment and the market value of that stock at the time the employee entered into the plan. . . .

"It is argued that the plan under consideration differs materially from the ordinary stock option plan for the compensation of employees, repeatedly upheld as valid, because, primarily, the liability of the company is unlimited under the Deferred Compensation Unit Plan but is fixed under the ordinary option plan, and to the further fact that under the ordinary option plan the employee becomes a stockholder, thus risking the loss of his investment, while under the Deferred Compensation Unit Plan the employee incurs no risk of loss of capital.

"In answer, the corporation maintains that the plan under consideration is designed primarily to retain the services of valued employees, and is admirably designed to accomplish this result. While the corporation argues that services of employees do reflect themselves in the market price of the corporate stock under a long-range view, nevertheless the main basis urged in support of the plan is that, fundamentally, it is not dissimilar to an ordinary restricted stock option plan and, consequently, should be upheld by the courts.

"We think that fundamentally the Deferred Compensation Unit Plan is no more liable to attack upon the ground of no existing reasonable relation between the amount of compensation and the value of services than is the ordinary stock option plan. An ordinary stock option plan, based as it is upon a rise in the stock price on the stock exchange, is equally subject to the vagaries of the market for the realization by the employee of his reward. If, as plaintiff contends, there must be a demonstrable, reasonable relation between the value of the employee's service and the profit harvest he ultimately reaps on the stock market, we fail to understand his tolerant concession

[1] *Lieberman v. Becker*, 155 A.2d 596.

that the restricted stock option plan does not constitute a gift of corporate assets. If the acid test is a demonstrable relationship, then both types of plans, we think, are subject to the same fatal flaw. On the other hand, if one is a valid exercise of corporate power, by the same token, the other is equally valid.

"[4] We must assume that the committee of directors charged with the administration of this plan will do so in the good-faith exercise of their considered business judgment. Indeed, there is no charge that they have done otherwise. Certainly, therefore, assignments of units will be made on the basis of the committee's judgment of the worth of the employee's services to the company, his length of service and contribution in the past and to be expected in the future to the company's prosperity, and numerous other factors, not the least of which should be their best guess of the future prospects of the company's stock on the open market. A decision by responsible businessmen reached after careful consideration of these factors, without bad faith or fraud, is entitled to weighty consideration by the courts. *Cf. Kaufman v. Shoenberg*, 33 Del.Ch. 211, 91 A.2d 786.

"Plaintiff's argument basically comes down to a proposition that the required reasonable relationship of value must be capable of being expressed in dollars and cents. It is, of course, obvious that to do so under the plan before us would be an impossibility, but it is equally obvious that under the ordinary restricted stock option plan it would be impossible to determine initially a dollars and cents value of the compensation ultimately to be received by the employee.

"The only remaining feature dwelt upon by the plaintiff which requires specific notice by us is his contention that the plan is invalid because it imposes an indefinite and unlimited liability upon the corporation. Such, however, is not the fact. By the plan, itself, a reservation is made which would permit the board of directors to terminate it at any time, and if the board elects to terminate within five years from its effective date, no credit under the market appreciation provision would be made to the account of any participant. Furthermore, the administration committee for the plan may at any time prior to a participant's termination date reduce or cancel all units standing to the credit of the participant.

"A further limitation upon liability of the company exists in the setting aside as a reserve for the purposes of the plan of a substantial block of unissued but authorized shares of the company. This means that if there is a large rise in market price imposing an unexpected liability on the company to meet its obligations under the plan, the company could sell in the open market a sufficient number of its shares thus set aside to satisfy the requirements of the plan. It could, for example, elect to sell the same number of shares as there were units entitled to compensation payments, thus putting itself in the same position as though, at the time of the effective date of the participation in the plan, options had been granted the employee at the then market price. . . .

"We think that there is no substance to the contention that the plan is invalid because of the existence of the possibility of an unlimited liability against the company. As a matter of fact, however, such a reason would not seem to be sufficient in any event to strike down a plan of compensation at the time of its institution. However, in the event matters got out of hand, the courts undoubtedly could prevent the waste of corporate assets if the actual amounts to be paid under the plan became so large as to be wholly unreasonable. *Cf. Rogers v. Hill*, 289 U.S. 582, 53 S.Ct. 731, 77 L.Ed. 1385.

"[5] We think, fundamentally, there is no difference between the Deferred Compensation Unit Plan and the ordinary stock option plan. Both types of plans are designed to retain the services of valued employees, and we think the Deferred Unit Plan is designed to accomplish this more effectively than is the ordinary stock option plan. In any event, whether or not a corporation should embark upon such a method of compensating its employees is to be decided by the board of directors by the exercise of their business judgment. When a corporate decision is made in the light of the best business judgment of its management, absent fraud or bad faith, the courts do not interfere. *Davis v. Louisville Gas & Electric Co.* 16 Del.Ch. 157, 142 A.654.

"[6] In the case at bar, the plaintiff expressly disclaims any contention that the directors . . . in adopting and proposing the Deferred Unit Compensation Plan were guilty of fraud or bad faith. As a matter of fact, the plan, having received the express approval of a large majority of the stockholders of the company, makes any such contention immaterial and, in fact, places upon the protesting stockholder a heavy burden in his attack upon the plan. *Gottlieb v. Heyden Chemical Corp.*, supra.

"[7] Finally, one more observation is required. Plaintiff relies strongly upon the case of *Berkwitz v. Humphrey*, D. C., 163 F. Supp. 78, which held invalid a similar plan. The reasons for the ruling of the court in the Berkwitz case are set forth in a very lengthy opinion. They are substantially the same as those urged to us by the plaintiff. We have rejected these reasons."

PHANTOM STOCK TIED TO STOCK OPTION

Prior to the outcome of this litigation, a large chemical company in 1957 adopted a phantom stock plan which was significantly different. Under this plan, instead of receiving stock (or equivalent cash) from the regular bonus plan, the executive is awarded phantom shares, or "dividend units," as they are called, at the ratio of one and one-third shares of dividend units for every share of stock the executive would have received under the regular plan. In addition, under a restricted stock option plan, the executive is granted an option to purchase stock up to one and one-third times the number of his dividend units.

In this plan, until his death or the eighty-fifth anniversary of his birth, whichever occurs later, the owner of dividend units is entitled to receive amounts equivalent to the cash dividends that he would receive if he held actual shares of stock. In the event of a stock dividend, split-up, or other such change, an equitable adjustment is made in the number of dividend units assigned.

When the holder of dividend units exercises his option to purchase stock, his dividend units are can-

celed at the ratio of four to three (one to one and one-third, in reverse). For example, if an executive was awarded 150 dividend units and an option on 200 shares, purchase of sixty shares under the option would result in the cancellation of forty-five dividend units.

Proponents of this dividend unit plan claim many advantages. Among them are:

- By paying the bonus in dividend units, instead of in cash or stock, more money is retained in the business. If this money is profitably employed, they say, it will earn enough to cover the cost of dividend unit payments.
- In any event, they point out, the obligation to pay on the dividend units is eventually terminated, either through the lapse of time, or through their cancellation when holders exercise their stock options.
- Whether the executive exercises his stock option, or retains his dividend units, he still has the incentive to make the business more profitable.

From the point of view of the individual executive, one might ask what would motivate him to exercise his stock option and thus cancel his dividend units? Why, instead, wouldn't he be inclined to keep his dividend units and avoid the necessity of investing his own money in stock under the option plan?

- First, under this plan he could acquire four shares of stock for every three dividend units he would lose. In other words, after exercising his stock option he would receive in dividends one-third more than he would have received from the dividend units.
- In addition, the stock, once acquired, would entitle him or his beneficiary to dividends as long as the stock was held. The dividend units, on the other hand, would expire upon his death, or the eighty-fifth anniversary of his birth, whichever occurred later.
- Finally, by acquiring the stock he would be building an investment or estate. If at a later date the stock should be sold at a profit, there would be the added prospective advantage of a tax savings as a capital gain.

A SIMILAR BUT DIFFERENT PLAN

In 1959 the stockholders of another large chemical company approved a phantom stock plan that is similar to the one just described, but with significant variations. Under this plan, dividend units and stock options are granted at a ratio of one to one. If the executive lives up to certain contingencies, the dividend units remain in force during his lifetime unless they are canceled by his exercising a stock option, again at the ratio of one to one. To make it easier for the executive to exercise his option, he may borrow the needed money from the company under an unconditional contract to repay within five years. Interest payable to the company, in this event, cannot be less than 2%.

In describing this plan, the company emphasizes that it is primarily interested in encouraging executives to exercise their options and cancel their dividend units. The provision for lending the needed capital would seem to implement the company's stated intent.

A LATER VARIATION

A large steel company has even more recently adopted a phantom stock plan, similar to those already described but without the stock option tie-in. Under this plan, a participating executive (or his estate) receives the equivalent of dividends, times the number of units awarded to him, for the duration of his life (or in any event until the fifteenth anniversary of his termination, by death or otherwise), provided the executive lives up to specified contingencies.

As this article indicates, The Conference Board has been able to find only a handful of phantom stock plans. Whether their growth has been forestalled by the litigation—especially the early setback—is a matter of conjecture. But the number of inquiries now being received by the Board indicates that phantom stock plans are currently being given considerable study.

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Management Bookshelf

Executive Compensation—Primarily a statistical analysis of the compensation of the highest-paid executive, the study explores the relationships between executive compensation and industry, corporate size and corporate profitability. Data are taken from reports to the SEC by 410 companies for 1945, 1948, 1949 and by 939 corporations for 1950. Also included is a section on job shifting among executives for the years studied. *By David R. Roberts, Free Press, Glencoe, Illinois, 1959, 189 pp., $6.*

Employee Publications—To provide guidance for managements who want to start or improve an employee magazine or newspaper, the author describes the steps, from choosing an editor to distributing the publication. He draws heavily for illustrative material on the publications program of the Du Pont Company. An examination of what a publication can and cannot do helps to arrive at realistic objectives. Articles that have appeared in employee publications are reproduced to illustrate the range and depth of subject matter that can be treated. *By William C. Halley, Chilton Company, Philadelphia, Pennsylvania, 1959, 139 pp., $5.*

Organization Planning—Decentralization Reconsidered

"Recentralization," a term appearing more frequently in business news lately, connotes a reaction against "decentralization." Presumably, some company efforts to "decentralize" operations have come a cropper. They now find it necessary to regroup units and tighten headquarters' controls.

But what's really happening? Are companies returning to older centralized forms of organization? Or is it possible that what is being called "recentralization" is really the setting up of those centralized plans and controls that are necessary for effective decentralization?

A recent Conference Board Round Table discussion asked the following men to consider the above questions.

- Walter T. Lucking, President, Arizona Public Service Company
- Daniel L. Kurshan, Director of Administration, The Port of New York Authority
- Lounsbury S. Fish, Assistant to Chairman of the Board, Standard-Vacuum Oil Company

William Machaver, Director of Personnel, The Sun Chemical Company, served as chairman of the panel.

CHAIRMAN MACHAVER: Decentralization in American industry is primarily a postwar phenomenon, although it existed to some degree before the war. After World War II, however, decentralization gathered momentum all over the United States, in medium, large, and in some cases even in small industries.

Its growth can be traced to four or five fundamental reasons. In the first place, pent-up consumer demand burst forth immediately after the war. Industries and businessmen, anxious to take advantage of these markets, found that the most effective way in many cases was by decentralizing—in effect, by being at the point of consumer demand.

Second, where freight and transportation of raw materials were a considerable cost, being close to raw materials was important. Some companies decentralized in order to take advantage of this particular situation.

Third, because of the tax situation and other economic pressures in effect during the postwar era, many companies found that there were specific financial and economic advantages to decentralization.

A fourth reason, and this is largely a development of the late Forties, was the discovery on the part of many top management people that in order to effectively meet competition, decision making had to take place at the point of action. If the lines of communication were cumbersome, if there was too much red tape between the head office and the various outlying plants, the company was at a competitive disadvantage.

Very close to this reason was another one. With the growth of large plants and companies, the whole problem of management-employee relations took on tremendous significance. By decentralizing into smaller units, many managements found that productive efficiency was increased because communications were improved, and better relationships could be developed between manager and employee.

For these reasons, decentralization became a vital part of management philosophy.

Now we have had about ten to fifteen years to take a look at the impact of decentralization and to try to evaluate it. During these years there have been significant economic and social changes. There have been developments in the international arena which have a very strong impact upon management objectives and organization planning.

And on the domestic scene, marketing and production techniques have undergone very crucial changes. Because of changed transportation facilities, methods of distribution are quite different from what they were ten years ago. There have also been very significant changes in labor relations, in new product development, and in the mechanization of the office.

Because of all these changes, something interesting has been developing in management thinking. There have been many reports, both in management literature and from some leading companies, of something called "recentralization." These reports have usually been accompanied by statements that decentralization has somehow highlighted the need for greater control. So "recentralization" has most often meant setting up, or tightening, central controls.

Is there a swing away from decentralization? The talks that follow are an attempt to reappraise our entire concept of management's philosophy of decentralization; to see what it has achieved; and to perhaps point to a new direction.

The Function of Executive Management

by Walter T. Lucking

DECENTRALIZATION has been peddled as the panacea for any management ill. It has been so highly touted that the company which has not decentralized is obviously out of tune with modern management practices and out of step with the industrial Joneses.

A casual observer might conclude that the primary objective of business is to decentralize; profits, somehow, become a rather nice by-product. Still, we must agree that decentralization does offer many advantages for the right enterprise at the right time and in the right place.

At best, decentralization is a somewhat vague term. This vagueness reminds me of the "line-staff" terminology. In our efforts to organize work, most of us have tried to cut the cloth of organization to fit the traditional line-staff pattern. In doing so, some have found that the line-staff strait jacket obscures and confuses managerial authority and responsibility, hinders the exchange of ideas, and increases friction between departments. It appears we have been so concerned with labeling a function or component as line or staff that we have overlooked the importance of identifying and providing for the various relationships that must exist within an organization.

Rather than label work and responsibilities as either line or staff, some have concentrated on creating better understanding of work structures through such vehicles as more adequate position descriptions; analyses of authority, responsibility and relationships; and by creating a better climate for communications. The lesson is: we can organize effectively without resort to the line-staff labels.

Likewise, I suggest that decentralization has its inadequacies both as a label and as a universal practice. Decentralization, just as line-staff, means different things to each of us. To some, for example, it means simply the geographical dispersal of manufacturing plants, marketing units, or other work forces. To others, it describes the transfer of responsibility from a functional component to an autonomous unit or division. To still others, it means organizing around a product or process. And, finally, decentralization is used to describe the traditional delegation of authority and responsibility regardless of the complexity of the organization structure.

We have become so involved in refinements of the word "decentralization" and its meanings that perhaps we have shunted to the background the practical job of organizing work. In our search for such refinements we have come up with such terms as "functional decentralization," "autonomous units," "federalization," "geographical dispersal," or "profit centers." On occasion someone even uses the granddaddy of them all, "delegation."

As with line and staff, it is unrealistic to conclude that everyone should embrace the various concepts of decentralization, for there are many variables from company to company that have an impact on how each is organized. Such things as the nature of the business itself, its size, its growth problems, economic conditions, customers, product diversification, or competition help point the way to or from decentralization. It seems to me, then, how each of us organizes must be determined within the framework of the organization's objectives, its needs, and its way of managerial life, rather than by swallowing a universal cure-all.

If, as I have suggested, decentralization cannot be applied as a universal panacea by executive management, are there any approaches to organization planning for decentralization that do have universal application?

As a start, what is the function of executive management? I don't intend to add my definition to the volumes that already have been written. Perhaps the safest approach is to skirt the issue and merely identify executive management somewhat vaguely as the kind of work done by the individual or that handful of men at the top of the corporate hierarchy. Obviously, who an executive is and what he does varies from company to company.

However, there are some rather broad areas of decision making that the top echelon of any organization is responsible for. If we look at these areas, perhaps we can develop some approaches to organization planning that may or may not be consistent with the various concepts of decentralization.

FOUR BASIC RESPONSIBILITIES

Generalizing a bit, any executive has four basic responsibilities which determine the nature of his work and the kinds of situations in which only he can make decisions:

First, he is responsible for today's profits, and we don't need to camouflage this function with fancy phrases—we are in business to make a profit.

Second, he is responsible for the continued survival of the organization—for thinking and planning ahead, for foreseeing problems, for establishing long-range objectives; in short, for the planning that will make possible tomorrow's profits.

Third, he is responsible for how the company's men and women are organized, and for the managerial climate in which they perform.

Fourth, he is responsible for the continuity of managerial leadership, for assuring tomorrow's managers

by stimulating the continuous self-development of his people.

It is within these four broad areas that the executive manager functions and makes his decisions. These areas encompass decisions that cannot be delegated to any level lower than top executive management. They are the chief executive's primary functions.

Recognition of these four broad areas of decision making, and a close examination of how we actually perform in our own jobs, dramatizes the temptations and paradoxes that seem to beset the executive manager. For example, the executive has the need and desire to be as close as possible to today's decision-making actions; yet his work is most concerned with long-range plans, policies, and objectives.

Or, he cannot and does not want to abdicate his absolute responsibility for the actions of his managers; yet he must be relieved from today's operating decisions. Again, he must measure how his managers have done in the past and how they are doing at this very moment; yet he must be primarily concerned with where his organization is going five, ten, or twenty years from now.

The paradoxes and the temptation to make decisions for others will always be present. Embarking on a planned course of centralization or decentralization will not necessarily permit the executive to perform his functions most effectively. Rather, his first concern is to establish objectives that will direct the organization toward the best possible economic performance.

His second concern is to answer such questions as: What kind of leadership do we need to reach our objectives? Is there a best organization climate that will bring into play the full potential of every individual? Or, what organizational characteristics will assure the opportunity for personal achievement along with the accomplishment of the organization's objectives?

Each of us must answer these questions in his own way to meet his own needs. Perhaps we can agree that we don't want an organization that is dictatorial, nor do we want a "command and obey" military type. These kinds of organizations imply force.

Rather, we believe that men want to be right and have a natural desire to do their best. We believe they want to succeed, not fail, but that they must have the opportunity to do either. This means that, in so far as possible, all managers must have self-control over their decisions and actions. This means they should have the authority to perform within the bounds of their capacities and within the framework of the objectives and functions of their jobs. This means that decisions should be made at the lowest possible organization level.

The task, then, is to establish an organization structure that will permit the executive to give proper attention to his four major areas of responsibility while enabling all levels of management to exercise self-control over their own decisions and actions.

Many larger companies have determined that an organization structure composed of federalized, autonomous units most effectively achieves this approach to management. However, not all of us have the size, diversity, or market that lends itself to such organization. Yet, if executive management is to concentrate on the four broad areas of responsibilities, then there are a host of vital decisions that must be made by other managers at other levels.

TWO PRINCIPLES OF ORGANIZATION PLANNING

I would suggest two obvious but frequently overlooked principles of organization planning that we all can utilize to enable the executive to function properly and at the same time permit all other managers to have self-control over their decisions and actions.

> First, organize with an absolute minimum of management levels.
>
> Second, strive for the broadest possible span of responsibility.

I am reasonably sure that the levels of management often found in our organization structures can be drastically reduced. This reduction of levels can be quite meaningful to the art, specialty, or profession, if you please, of managing.

A quick look at many organization charts discloses that we have piled level upon level of management. Some authorities tell us that the growth of levels is created by the failure to decentralize. I would suggest that such vertical growth has been created in part by the tendency to structure management positions for the purpose of doing the work of subordinates rather than managing the work of others. Thus, too many managers, particularly in the midechelon, become functional specialists. In such cases the goals of self-control and decision making at the lowest possible levels become nothing more than never-to-be-realized ideals.

Reducing management levels to a minimum can accomplish several things. It can shorten the chain of command, eliminating communications bottlenecks and speeding up decision making. It can make it easier to understand the company's objectives and its total problems. And it can bring the locus of decision making closer to the executive leadership. In passing, we might note that achieving a minimum of levels leaves no room for assistants, assistants-to, administrative assistants, special assistants, management by committee, or other organization gimmicks.

I cannot suggest how many levels of management there should be. In many areas the number need not be greater than two, including the chief executive. In most cases it appears it need not be greater than four

or five. Yet within many organizations, including my own at one time, we find as many as ten or twelve management levels.

A minimum number of levels helps bring about the second structural improvement: a wider breadth of reporting relationships or span of responsibility. In fact, achieving a minimum of levels and increasing the span of responsibility can drastically reduce the total number of managers required.

A broadened span of responsibility can have other beneficial effects. If managers are to manage by exercising self-control, the traditional five or six managers that should report to a higher authority, particularly to the so-called executive management, is a rather minimum figure. If we want a manager to have the freedom to succeed or fail, then we can eliminate the concept of management by interference, or, to put it more politely, we can eliminate management by second guessing.

I do not know if there is a limit to the number of managers who can report to a higher position. We know some subordinate positions require greater assistance and time than others. Perhaps we would find that the only limit is that of the higher authority's ability and capacity to manage, not dominate. So, as we better understand and master this business of managing and as we learn to structure our organizations accordingly, I foresee the span of responsibility growing to proportions that we would believe impossible today.

As we eliminate excessive levels and concurrently increase the span of responsibility, we might well bring into play some aspects of decentralization and, at the same time, some factors of centralization. We must delegate. We must consider functional and federal structures. We must organize with a purpose—around products, processes, geographical areas, or profit centers. However, the goal is not to centralize or decentralize. The goal is to achieve economic performance.

We know that sound management principles and organization planning in themselves will not assure success. We know that the future of any organization is limited only by the capacities of its leaders. However, I am confident that eliminating redundant levels of management and increasing the span of responsibility can significantly aid us in bringing into play the full potential of all men, with freedom for self-faith, self-reliance, personal responsibility, and personal achievement.

Central Staff as a Control Agency

by Daniel L. Kurshan

THIS TOPIC, "Central Staff as a Control Agency," is really a teaser. The words "decentralization," "central staff," "control," are full of communications pitfalls.

However, if we can agree for working purposes on some meanings for these three words plus a fourth, "delegation," maybe the underlying concepts will fall into place.

These four concepts are tied together into a close knot. Let's look at each one and see how they interact.

Decentralization

First is "decentralization." According to the Comptroller's Institute and many other respected authorities, decentralization is nothing more than a relatively large amount of delegation of authority.

That is rather simple. If top management delegates responsibility in relatively big doses down the line, decentralization occurs whether the company is organized on product or functional lines.

If decentralization means merely delegating authority, then a functional-type organization can be highly decentralized. If, for example, the vice-president of marketing is given a great deal of responsibility for the marketing decisions, if a vice-president for manufacturing has responsibility for most of the decisions in his area, and if these vice-presidents in turn delegate their responsibility down to the lowest possible level, we have decentralization in a functional type of organization. Perhaps, to the surprise of some, by the same definition a product-type organization may be highly centralized if each product manager, for example, has to look to higher authority for the go-ahead signal for most of his everyday decisions.

So let's consider "decentralization" to mean an organization in which there is fairly good delegation of authority down the line. And let us understand that the decision to organize by product rather than by function doesn't really change the level at which the effective decision can be made. It merely changes the supervisor between the top echelon and the third echelon down.

Product Organization vs. Functional Organization

Let's take an example. I'll use my fellow panel members Walter Lucking, Berry Fish and Bill Machaver as managers of a hypothetical bakery that we are going to organize.

Let's make Mr. Lucking president of the bakery and Berry Fish vice-president for manufacturing. I will be on the third echelon, working for the latter. My job is to manufacture the pizza pies that this bakery makes, among other products.

Berry has two other managers, one in charge of baking mother's doughnuts, and the other in charge of baking French pastries. On the same level as Berry are vice-presidents in charge of sales, finance, etc.

Now suppose Mr. Lucking decides to reorganize according to product. Berry promptly gets kicked upstairs and becomes headquarters vice-president in charge of manufacturing. We get three new product divisions—one for doughnuts, one for pastries, and one for pizzas—and I, incidentally, get a new boss, Bill Machaver, who is in charge of the newly created pizza division. So far as I am concerned, however, my job is the same. I am still putting out the pizza pies and I make the same decisions I made before—even though I now report to Bill.

Well, what is the difference? This situation makes decentralization in the sense of delegation a little easier to comprehend. Our president, looking down, now sees three self-contained enterprises, and he finds it just a little tougher to get involved in the details that he might be getting involved in if he were looking down at functions. In fact, with product divisions, the president has pushed down one level the responsibility for coordinating the functions of the enterprise. He leaves himself free for that long-range thinking which we believe most top executives should spend more of their time on.

In other words, whereas Mr. Lucking formerly decided conflicts between sales and manufacturing at the product level (such as pizzas), most such conflicts are now settled by each product division vice-president such as Bill. (There is a reservation about this that I will come back to later.)

In addition to changing some of the functions of the top executive, the switch to a product-type organization also improves the climate for better delegation. To illustrate, as the pizza chief at the third level, I am the one closest to the facts and feel that I should be making the decisions associated with my manufacturing responsibilities. Well, under a product organization it is easier to give me relative autonomy on the manufacturing methods we use to achieve the objectives and schedules set for our pizzas.

My main subject of outside communication becomes how to fit my manufacturing operations into the sales and financial plans, the policies, and the scheduling for our product. The "how" tends to become a matter on which I am largely left to my own resources by Bill, the division manager. If I want to let my bakers exercise their virtuosity by tossing the dough up in the air and catching it with their bare hands, that is pretty much my business. But in a functional-type organization where I would report to Berry, as head of all manufacturing, I think I would find much more supervision and review of the "how" by Berry. Since they never touch the dough with their hands in the French pastries' unit, he may question why we have to be so uncivilized in handling pizzas. (Again, there is a reservation here similar to that which applied to the chief executive. I'll treat both in discussing line and staff.)

Control

The next concept to examine is control. Mention "control" and the hackles rise on the necks of many managers in a decentralized organization. Yet, in the absence of some way by which the top management of an enterprise can effectuate its will throughout the organization, the company becomes little more than a loose confederation, and top management becomes a mere holding company.

The resolution of this apparent paradox lies in how control is exercised. If top management were to set up a product-type organization structure that presumably facilitates the delegation of authority but then withholds the granting of that authority, it may achieve control but at the cost of failing to decentralize. The withholding of authority also may be accomplished indirectly, despite all the printed manuals to the contrary, if top management second guesses its lower echelons and fosters a timidity that puts a deep chill on any independent action below.

However, by exercising another form of control, which we may call measurement of results and evaluation, top management may assure itself that it is controlling the results without conflicting with the authority it has delegated.

Under this kind of control, companies usually rely on the following measures to guide the organization units toward their optimum performance.

- Better definition of objectives and policies
- Improved reporting systems
- The establishment of standards against which results can be measured
- Counseling and indirect forms of assistance

This kind of control calls for a careful evaluation of results and then ultimately the corrective action needed to insure that future results reach optimum levels.

Line and Staff

Another of our communications pitfalls is the phase "line and staff." We all recognize the semantic bear traps involved in the use of these words.

To try to stay as much out of trouble as possible, I will use the word "line" to mean the operating side of the business. In a utility or other service company, this would include the units providing service to the

customers. In a manufacturing company the operating units would be the manufacturing, sales or product divisions. In my own organization, The Port of New York Authority, it would be the groups responsible for operating our airports, seaports, tunnels and bridges, and inland terminals.

So much for "line." Any other unit can be called a staff unit. This would include finance, public relations, purchasing, management analysis, industrial relations, or what have you.

These so-called staff units are intimately involved in the problem of central control. The way "staff" is used by headquarters determines whether control will be tight or loose and, therefore, the degree of decentralization.

Consider, for example, the field of industrial relations. Top management may be concerned about the quality of personnel recruited, about nepotism, about salaries being too high or too low. One way of "controlling" the problem is to give the vice-president for industrial relations complete authority over hiring and wage rates. While this might insure a good recruitment and pay system, what would it do to the ability of the divisional manager to get results through people if he has no control over their selection or how much they get paid?

What other methods are available for the use of headquarters staff? Actually, the available alternatives range from exclusive authority in headquarters on the one hand to no authority on the other.

For example, the headquarters staff unit may set standards of recruitment and pay, leaving the divisions with authority to hire and promote only within these standards.

Or the divisions may be given authority themselves to set standards for jobs and for pay, subject to prior approval by headquarters.

Or headquarters may later review and possibly veto the standards that the divisions have promulgated.

Or the divisions may have authority to move the whole way with no prior approval, no subsequent approval, subject only to reporting what they have done. Then the staff unit is free to audit if it chooses.

Such audits may be on the initiative of the president at the instance of the staff unit itself, or perhaps only on invitation of the division concerned. Or the audit may be proposed by the staff unit, and the operating division may refuse to have the audit. In this case, staff in turn could appeal the division's refusal to the next higher echelon.

The result of an audit may be reported to top management only or to the division only, or to both. The responsibility for correcting difficulties shown by the audit may rest with the headquarters staff or with the division.

The responsibility for follow-up may also be set up in different ways. And the cost of the service of the staff unit may be spread over the whole company as undistributed overhead, or it may be charged directly to the division served, or it may be charged only if the service was sought by the division affected. How it's done depends on the needs of the company, the management philosophy of the company, and its organization policies.

Now let's come back to that concept of centralization-decentralization. Delegating comparatively great authority to division managers predetermines to a considerable extent the dimensions of line-staff. Top management, having relinquished a good deal of active supervision through the act of delegating authority, will have more need for central control units to assure that the company is on course.

Now let's look at a contrast between the product-type organization and the function-type organization from the viewpoint of line and staff. I already stated that: (1) the top executive of a company organized by product tends, as a result of that type of organization, to free himself from the responsibility of coordinating functions; and (2) the man on the No. 3 level (that's me and my pizzas) tends to make the final decision on the functional questions relating to that product.

However, both these generalizations have to be modified by the impact of line and staff. For example, if a product-type organization chooses to build up a group of strong staff headquarters units with effective control authority, this could negate some of the advantages cited earlier.

Specifically, if my division vice-president in charge of pizzas, Bill Machaver, can be overridden by the headquarters financial vice-president on matters of financial judgment regarding the product; if our division sales manager must get final approval on his marketing plans from the headquarters marketing vice-president and not his product boss; if Berry, as head of the corporate manufacturing staff, tells me how long to leave the oven on, then many of the advantages of a product-type organization have been lost.

What's more, that splendid insularity of the top executive, who we thought would be contemplating plans and objectives for twenty years ahead, becomes lost in trying to resolve conflicts between the headquarters staff and the product division chiefs.

CENTRAL STAFF AS A CONTROL

So the question is: How can we maintain adequate central control in a company that has delegated great authority to its divisions, particularly where these divisions have been organized on a product basis? Must it be in the direction of considering recentralization?

My answer is emphatically no. I believe that the central staff, when used in accordance with modern

Interdepartmental Relationships—Principles Adopted by The Port of New York Authority

Underlying all formal assignments of authority are certain general principles that apply to all departments and to their dealings with each other:

1. The relationships among departments must be characterized by mutual trust and mutual respect for the contribution that each group can make to the solution of the common problem. One basic test of a department's sincerity in this respect is the extent to which it communicates with other departments—i.e., how well it keeps them informed of significant developments which directly or indirectly affect their work, the accuracy and timeliness of the information, and the courtesy or consideration with which their views are solicited.

2. The staff departments should not place excessive emphasis on jurisdictional rights, but should undertake to obtain acceptance by persuasion, building informal relationships, performing high quality work within agreed time limits, and especially by demonstrating a realistic understanding of the problems and point of view of the other departments. (This is commonly referred to as using the "authority of knowledge" rather than the "authority of rank.")

3. The line (as well as staff) should not become inbred, inflexible, or shortsighted; it should welcome new and fresh ideas, improvements in methods, and attention to long-range needs.

4. Negotiations should be dominated by a sense of practicality, by a recognition of what makes sense in the situation, even when this collides with consistency.

5. Negotiations should be characterized by informality, face-to-face contacts and good-humored attempts to resolve differences. But if a fundamental principle is involved and there is no other way, the issue must be thrashed out at higher levels and not allowed to fester inside the organization.

6. As a primary condition of organizational effectiveness, it must be taken for granted by all departments that the responsible department (whether line or staff) will adopt the recommendations of another department if they are sound and will reject them only for compelling reasons. If the other department is unable to persuade the responsible department, and a basic principle or policy issue is involved tying back to its own responsibility, the other department should appeal the matter to the executive director.

7. When a department has made a recommendation or given advice which is not accepted or when its advice or concurrence should have been sought and was not, the responsible department must answer to the executive director for any inadequacy of performance resulting from such decisions or such omissions.

8. When standards have been developed for Port Authority-wide application (more than one department) and have been incorporated in official statements of policy, such as the PAI manual, or where the executive director has made it clear through other media or methods that certain standards are to be observed, the role of the staff department is no longer advisory but becomes one of inspection and reporting.

management principles, can actually strengthen product divisions as well as the lower echelons to which authority has been delegated. At the same time, it can assure central management that performance is adequate and proper. And it can do these things without involving top management in a continuous refereeship of squabbles between the headquarters staff and the operating divisions.

Prerequisites for Effective Control

What are the requirements for effective use of central staff as a control agency? To begin with, we must have tangible and measurable objectives, policies, programs, goals, standards, and budgets so that we have something to control against.

Central staff may have an important job in helping the chief executive know that these objectives have been well thought out, are consistent, and in harmony with top management thinking. But you can't control if you haven't thought through these fundamentals, because there just isn't anything to control against.

Next, it is important to have an organization structure that will permit effective control. Authority and responsibility must be pinpointed, relationships must be soundly established to prevent undesirable duplication and overlapping, and decision making must be delegated to that level of the organization most likely to produce the best answers.

These are all familiar management fundamentals; but if we haven't poured a solid footing, the control structure is likely to teeter.

Finally and, of course, most important, it is necessary to have the right people in central staff spots. If we are to be assured that staff will not command but will merely assist the other units and top management in maintaining uniformity of policies, adequacy of standards, and evaluation of results, we will need a special breed of temperament for these posts. What we have to find are people who are technically qualified, yet have a broad, company-wide, industry-wide

outlook, an ability to harmonize conflicting viewpoints—and that includes being patient, discreet, and a good listener—and an ability to subordinate their own egos.

Philosophy of Sound Line-Staff Relations

In order for the central staff agency to assure top management that the company is under effective control, there are certain general principles that should govern the dealings between units.

In our organization we have adopted some eight of these principles (see the accompanying box). In general, they are designed to create mutual trust and mutual respect for each other's contribution. Let's take a look at a few of them.

A test of a department's sincerity is the extent to which it communicates with other departments on pertinent matters. In other words, if a line division plays it close to its chest and doesn't give the interested staff divisions a crack at its plans until it is too late for them to make a contribution, well that just isn't playing the game.

Staff departments are urged to seek acceptance through persuasion, building informal relationships, and demonstrating a realistic understanding of the problems of the other divisions. They are urged to shun emphasis on jurisdictional rights. In the situation I just mentioned, for example, the staff division doesn't achieve results by tossing a crackling memorandum to the offending division—making sure that copies go to the heads of the other divisions. Where were the staff department's intelligence agents? If they were doing their job and were close to the line division where they belong, they would have known of the plan in time and tactfully assured themselves a crack at it.

We direct attention to the nature and quality of negotiations between divisions. These we feel should be dominated by a sense of practicality, even at the expense of consistency: "Sure, we did it the other way last time. Granted, a solution isn't in the books, but if it looks promising and may save dollars, why not give it a try."

Negotiations should be characterized by informality, face-to-face contacts, and good-humored attempts to resolve differences. A long exchange of correspondence may satisfy the frustrated hopes of embryonic literary lights, but it is not likely to improve the margin of profit. On the other hand, if a fundamental principle is involved and there just is no other way, the issue has to be thrashed out at a higher level and not allowed to fester inside the organization.

Pinpointing Accountability

Now, how do we go about pinpointing accountability? We use various ways. For example, the net revenue concept. To the extent that a division makes decisions affecting its own revenue position, it can be held accountable for a satisfactory financial return on investment.

This is why a typical product division (like my pizza group) is such an attractive unit of organization. Revenues, expenditures, sales and profits are all highly visible. It also illustrates one of the principal advantages of decentralization. To demonstrate it in reverse, if authority has been withheld on decisions affecting revenue, a division manifestly cannot with any fairness be held accountable for the financial results. (To our sorrow, we once discovered this when we tried to blame the manager for a passenger terminal that was then losing money. He was able to point out that design, tenant leases, and operating practices were all determined by others before he ever arrived at the scene, and these factors largely determine the profitability.)

A second way of determining accountability is what we call service-to-the-public criteria. Divisions that provide service to the public can be held accountable for maintaining established standards. Evaluation is based upon such things as complaints, waiting lines, litigation, and newspaper attitude. Public utilities and public corporations like the Port Authority find that service must come before profit. We use a highly developed system of inspections and reporting to maintain standards of adequate operation and maintenance.

Third is an adequate reporting system. Basic to all reporting, of course, are financial reports. In addition, we put considerable emphasis on a coordinated system of narrative reports that culminates in a weekly report to our top board. This report provides our board and top staff with a confidential capsule of all the highlights of the previous week's decisions and activities.

Plant visits to observe maintenance practices, safety, and so on serve as another type of report. And we have reports on progress with respect to the annual management objectives of each unit. Each of our units is required to prepare an annual list of ways in which they are planning to improve their administrative management in the year ahead, and they report progress quarterly against the plan.

A final type of control is performance standards. Companies are experimenting widely with various types of standards to measure performance in all kinds of activities at all levels. Apparently the last types of activities to yield usable standards are those that involve a considerable amount of judgment, of discretion, or where there is a heavy emphasis on quality. As successes, or partial successes, or failures can be better determined, to that extent control has been advanced.

In summary, decentralization can be made effective if top management uses its central staff efficiently to provide the measurements and evaluations needed to

assure top performance. More than this reverses decentralization. Less than this would not provide adequate assurance to the board of directors that the company's affairs are being well managed.

Decentralization Reappraised

by Lounsbury S. Fish

MANY PEOPLE talk a good game of decentralization; fewer understand its full implications. It takes a lot of doing to fit the concept of decentralization to the particular needs of a large business and make it work!

Tendencies Toward Centralization

Many human factors and frailties conspire toward the overcentralization of management:

- Higher management is concerned with the satisfactory progress of the business. It naturally feels that if it makes all the decisions and watches all the details of the business itself, the situation will be well in hand.
- There is widespread reluctance among executives and supervisors (and fathers and mothers) to delegate a sufficient measure of responsibility and authority to their subordinates.
- Executives advanced to higher positions tend to hang on to the responsibilities they exercised at lower levels; their successors, they feel, lack their own breadth of judgment—"nice boys but young yet!"
- It often seems easier and quicker for the executive to handle particular matters himself than to find and train others to handle them satisfactorily for him. Unfortunately, in so doing the executive limits his capacity to one manpower.
- Every time a subordinate makes an embarrassing mistake or error in judgment, there is a tendency to curtail delegated authority and exercise closer control from a higher level.

The result of these human tendencies, on a corporate scale, is that too much of the management burden frequently rests upon the chief executive, the top group, the central office; too little responsibility and authority are given to those in immediate charge of operations who could be most effective in ministering to the needs of the business on the firing line.

Countering and overcoming these natural, gravitational pulls toward centralization cannot be accomplished by decree. It requires changed concepts of organization at the head office and in the field; it necessitates important changes in the system of controls; it calls for a conscious change in attitudes of mind, both topside and at the outposts.

Limiting Factors in Decentralization

Regardless of the desire and determination to decentralize, there are certain fundamental factors that limit the extent to which decentralization can be successfully applied in any given organization.

For instance, it is necessary to bring management decisions to a level that has appropriate jurisdiction and adequate knowledge of related requirements of, and consequences to, the business. "A man's judgment is no better than his information, his decisions no better than his knowledge."

So you can safely decentralize management authority only to the extent that you are organized at the receiving end to assure balance, coordinated management decisions—taking all consequential business factors into account. For example, resident managements may know most about conditions, needs, and fields of opportunity within their own areas; but they are less well informed about the relative needs and opportunities of the business in other areas.

Therefore, the degree to which knowledge and experience of the best industry practice can be made available to divisional managements to guide their decisions has a bearing upon the practical extent of decentralization.

Decisions which must take into account the relative needs, risks, and opportunities of the business in different areas can only be made at "the hub of the wheel." These include the following decisions affecting the disposition of limited resources among the different areas of need and opportunity:

- Investment of limited capital funds among competing needs
- Determination of which areas offer greatest possibility for growth
- Assignment of executive personnel among different operations, considering the relative needs of the business and the training value of the experience in the rounded development of men for senior executive posts
- In our oil business, determination of which areas offer the best possibilities of finding oil

Changes in Organization

It is essential that the management organization, both at the head office and in the field, be geared to the special requirements of management on a decentralized basis. Among the factors which must be taken into consideration in this connection are the following.

First, the extent to which the business as a whole lends itself to subdivision into principal operating components has an important bearing upon the feasi-

bility of decentralizing management decision and action. To facilitate decentralization, the business as a whole should be broken down into operating components that can be made relatively self-sufficient. Each component should, as far as possible, be—

- Big enough to justify a potent management team
- Small enough for that team to "get its arms around" and do a first-class job
- Complete and separable—a logical, definable, management "package," embracing or having adequate control over elements, facilities, services and related operations vital to the achievement of its primary objectives
- Measurable as to results achieved, as an essential basis for management accountability

Where the nature of the business permits, subdivision into semiautonomous smaller businesses—such as product divisions or geographical divisions, which can be held accountable on a profit-and-loss basis—has the following great advantages in facilitating decentralization.

- Each component business has within itself the means of coordinating and controlling many or most of its own business problems without burdening the high command.
- Components which thus qualify as complete sub-businesses can safely be given wide latitude in making their own management decisions—"in running their own businesses." As a result the primary centers of profit responsibility are multiplied.

Many of the large manufacturing industries have created relatively autonomous product divisions. The oil industry, on the other hand, finds it very difficult to subdivide on a product basis, as all the products usually come from the same barrel of crude in a common plant. In many cases, however, a satisfactory breakdown has been achieved on the basis of geographical divisions.

Another consideration in organizing for management decentralization is the provision for effective staff services. In order to make sound decisions, decentralized managements must have ready access to highly competent staff advice and services. Certain types of staff services should be established "at the elbow" of the operating executives who require them as an inherent part of the day-to-day management process.

Other types of services, such as engineering and mechanized accounting and data processing, can often be supplied satisfactorily from central offices, where greater volume, more experienced personnel, better equipment, and higher-powered technical supervision can result in improved service at reduced cost. In this connection, it is important to recognize that the heart and core of management decentralization is the decentralization of management initiative, decision and action. So long as the decentralized management is able to get the staff advice and service it needs as a basis for sound decision—promptly, competently and conveniently—this service can come from, or be based at, central offices without impairing the concept of "decentralization."

Finally, the business must be so organized that top management can effectively oversee the decentralized units without making all the detailed decisions. In carrying out this surveillance, many managements appreciate that even well-designed operating reports can, at best, convey only a part of the picture and, hence, place increasing reliance upon systematic visits by top executives to divisional headquarters.

The substantial amount of time required to do full justice to this important, top-management obligation should be taken into account in the plan of organization. In the smaller or more compact businesses, it is possible for the president and his functional officers to maintain sufficiently close personal contact with subordinate managements to fully satisfy this requirement.

In the case of very large enterprises, operating through many divisions and over a wide area, this becomes increasingly difficult. In such cases, there is a growing tendency to expand the president's office through the creation of group executives or regional executives, usually at the vice-presidential level, to assist the president in furnishing effective over-all guidance, leadership, and coordination to the respective operating managements.

Changes in Controls

With the organization requirements satisfied, we turn next to the question of controls. The successful decentralization of management depends upon the development of a system of controls that will permit the extension of the widest practical authority to local managements in the current conduct of the business. In designing such a system, the following are important requirements:

- As previously mentioned, the company's over-all objectives, long-range plans, guiding policies, and allocation of limited resources among competing needs and opportunities must, of course, be determined at the head office, where all the pertinent information is available. Based upon this over-all planning, "policy guidance" must be furnished to field managements as to the directions and dimensions toward which they should work.
- Within this framework, each field management must establish its objectives, plot its course, estimate its requirements, and forecast its results.
- Head office and field managements then must agree on whether the projected course is a satis-

factory basis of performance and accountability for the period ahead. This can best be accomplished through the medium of a carefully prepared "annual operating program" or operating budget.

• There needs to be an effective system for comparing actual results with agreed-upon objectives at appropriate intervals. In these "progress" reports, emphasis should be placed upon significance rather than volume (the really important figures, not all the figures; one does not have to resort to "*paralysis* by *analysis*").

• Finally—on the principle that a good look, on the ground, is better than a ton of paper at head office—there must be thorough visits, at appropriate intervals, by the responsible head-office executives to each of the principal operations:

1. To provide policy guidance and counsel
2. To secure first-hand knowledge of local needs and problems
3. To appraise past performance and results
4. To appraise forward programs, projects, and budgets
5. To appraise management strengths, development needs, and potential
6. To correct unsatisfactory conditions
7. To make many decisions or recommendations on those matters worthy of general management attention that can best be resolved in the field, where relevant facts are readily available, and the views of local management can be taken into proper account
8. To secure first-hand knowledge of situations requiring final decisions at the head office, and thus be in the best position to be convincing in securing necessary support at that level

These relatively simple measures, well designed and well administered, can provide the means for effective over-all management guidance, coordination, and control and, at the same time, provide wide latitude for management initiative and action on a decentralized basis.

Changes in Attitude

Finally, we come to decentralization as a way of life. It has been truly said that "decentralization is 95% an attitude of mind." Certainly, successful decentralization requires a conscious point of view. From the head-office end, this point of view might be characterized as follows:

• Members of head-office management should constantly remind themselves that the operating components are the heart and core of the business. These operating components should be recognized and respected as the "money-making elements" of the business.

• Head-office personnel must remember that a large part of the purpose and justification for the "overhead" or head-office organization is to help the respective operating managements do the best possible job in maximizing company profits.

• It should be kept in mind that decentralization works only if real authority is delegated, and won't work if details have to be reported—or, worse yet, "cleared"—before action can be taken.

• It should be appreciated that occasional mistakes by subordinate executives that contribute to their knowledge and development are usually cheaper than the ponderous processes of centralized management.

• Senior executives have to remember that junior has grown up—he is a big boy now—he wears long pants—he is usually able to carry the load if papa will relax and give him a chance.

In the same way, successful decentralization requires a complementary point of view at the receiving end.

In the first place, decentralization has to be earned. Accepting the heavy obligations of decentralized management is a solemn undertaking. It is one thing to refer possible courses of action to higher management to ponder, weigh, and decide upon; it is quite another to have to "sweat out" the decision yourself.

The decentralized manager needs to have the same motivation and concern, in every move, that he would have if it were his own business and his own money at stake. Knowing what he does about the opportunities and risks of the business, would he put his own money into this new service station, these new trucks, this new terminal; which segments of the market would he train his heaviest guns upon; would he follow this or that course or policy? It is a mighty lonesome position to be in, but good men thrive on it. It is the spirit of decentralization.

Advantages of Decentralization

Fitting these building blocks of decentralization together and adapting them to the needs of the business is quite a job. But a summary of the more important advantages and objectives of decentralization shows that the effort is worthwhile.

1. *Decentralization distributes the management load*—As an enterprise increases in size and complexity, it becomes more difficult, and finally impossible, to effectively handle it from some remote headquarters. It becomes increasingly necessary to develop management initiative, responsibility, and authority at logical centers, closer to the scene of action, throughout the company.

2. *Decentralization multiplies management effectiveness and firepower*—Instead of a single center of management, decentralization stimulates and multi-

plies management initiative, resourcefulness, and the sense of profit-making responsibility throughout the organization.

3. *Decentralization capitalizes on the natural decision-making advantages possessed by management-on-the-spot.*

4. *Decentralization strengthens, simplifies, and speeds the management process*—It minimizes the amount of detail which must be referred to headquarters; it eliminates unnecessary red tape, multiple handling, and overloading of central offices and staff costs.

5. *Decentralization develops strong, self-reliant managers*—It multiplies the opportunity for development of well-rounded executives and businessmen. It tends to produce *leaders* rather than *leaners*.

6. *Finally, decentralization gives added challenge, stimulus, zest, importance, and value to "management-on-the-firing-line"*—There is nothing more challenging and interesting than being on your own, with full responsibility and accountability for results. Because of the heavier responsibilities entailed, decentralization substantially enhances the importance of management positions.

In recognition of these fundamental needs and advantages, it is easy to understand why there has been a marked trend toward decentralization of management among progressive companies with large-scale operations in many parts of the world.

Questions and Answers

QUESTION: In an organization decentralized on either product or geographic lines, there may be some staff functions performed on the scene and others in the home office. What is the relationship between these corporate and division functions?

Take accounting, for example. If you have accounting in Houston, Texas and the home office in New York, is the accounting department in Houston working for New York or is it working for Houston? Who hires the accountant in Houston, for instance; who sets the policies for the local accounting department; and who oversees the accounting operation there?

MR. FISH: I think we would agree that if you were relying on the Houston management to operate effectively, it should have the tools to do the job.

Accounting is an important arm; it provides the facts and figures a manager has to have readily available to know where his unit is going and what he should do next.

Now obviously, the manager in Houston would recognize, as a good member of the total team, that a uniform system of accounting is necessary for the smooth operation of the company as a whole. I have never seen an operating manager who disagreed with that principle.

The division manager is usually willing to recognize that the headquarters comptroller should establish the standards for accounting throughout the company. And the division's accountant should conform to these standards, while at the same time serving his local superior.

I think it is most important, in the case that you raised, that the local accounting manager feel that he is working for the head of the Houston organization and is a member of the Houston team.

But I don't feel that this is incompatible with recognizing that he has to conform to general systems and patterns of accounting that are established for the entire company.

In the matter of selection or removal of the local accountant, we might all agree that there are two people who have to be satisfied.

Since the corporate comptroller bears the responsibility of reassuring the president or the financial vice-president that the company's accounting system is functioning smoothly, he has to be satisfied with the division accountant's performance in the over-all system and his professional competence. And the division manager who is served has to be satisfied that the fellow fits into the team, works effectively, and is really assisting him in the management process.

Either could block a promotion or initiate a change if, in his judgment, it was necessary. The final decision would probably be made at headquarters where both points of view could be taken into account.

As a footnote, I might add that one of the largest companies in the United States has its accounting setup reporting directly to the over-all accounting management at headquarters. Because of this, the heads of the various operating divisions just don't take the accountants into their confidence. Thus, the accountants are not effective members of the local team. I think that is a natural reaction and one of the obvious disadvantages of that type of organization.

QUESTION: In some companies, decentralization accompanied by a reorganization on product lines has created tremendous conflict between line and staff. The chief executive is often put in the position of the referee. This raises the following question.

Mr. Kurshan indicated that under a decentralized setup the control function of the staff could be affected through the process of appraisal and evaluation.

Yet, if you have local autonomy on a product basis, and someone from the corporate group comes in to appraise, normally there is likely to be resistance to being appraised and evaluated, particularly when that appraisal is going to go upstairs to somebody.

If corporate staff has no authority, the local decentralized operating groups are going to do everything they can to withhold information from the staff groups and, in effect, try to seriously limit their activity. Hasn't this been your experience?

MR. KURSHAN: It surely has, and that is why we have worked so hard to try to establish acceptable standards of performance and sound working relationships to minimize undesirable conflict and friction.

Of course, I challenge the assumption that all has to be sweetness and light in an organization. I can't think of anything more deadening than to have everybody agree with each other. It makes for a very sodden kind of environment. We get some of our best ideas in the heat of conflict, in staff discussions, and in the legitimate and wholesome rivalries that are generated by productive people with imaginative ideas.

MR. LUCKING: The key phrase in your question is "this is going upstairs." Do the audits necessarily always have to go upstairs? I don't agree with this. If we have individuals who can handle their own jobs in a decentralized operation, shouldn't they be in a position to ask for their own audits so they can do a better job? Shouldn't these audits first go to the people who have been audited so they have an opportunity to see what kind of a job they've been doing? I refer again to the human relations aspect of the process. Is the man being controlled, or is he being allowed to do the best job he can? Is he allowed to make a mistake, if that is what he has to make, in order to do a better job?

MR. FISH: If the staff advice is any good, if the staff people really know more about certain aspects of the business than the people they are advising—and unless they do, they are not worth their keep—then they ought to have something to sell that the man in operations, who is held accountable on a profit-and-loss basis, can't afford not to take advantage of.

If staff is there trying to help that man in operations do an even better job, instead of making him look offbase to his superiors, staff will usually get a lot of cooperation and appreciation.

MR. KURSHAN: The real problem is not in the area of aids to profitability. Anybody would be a fool not to accept advice on how to do better. The real problem occurs when the staff control agency seeks to carry out top management's attempt to assure uniformity in corporate standards—such as uniform standards of accounting, uniform personnel standards, and things of that sort. These may not help profitability at all for a particular product manager. Here I think is where we have our most acute friction between staff agencies and the line.

MR. FISH: I agree that "profitability" is too narrow a term.

Let's assume that all of the members of management in each of our companies are measured and gauged in terms of a half-dozen main things that you expect them to accomplish. To my mind, the staff people are there primarily to help line management do even better on those five or six things. On that basis there is usually a very good ground for acceptance.

Management Bookshelf

Industrial Man: Businessmen and Business Organizations—This anthology is intended to be a systematic roundup of current thought on businessmen and business life in America. Its articles cover the social structure, tasks, and ideologies of management and other issues underlying present-day industrial society. About one-fourth of the book, including an introductory chapter, introductory material opening each chapter and a number of articles, is by the editors themselves. The rest consists of articles and sections of other published materials which have appeared in print at various times during the last twenty years. Included among the contributors are: William Foote Whyte, Chester I. Barnard, Malcolm P. McNair, Elton Mayo, Carl Kaysen, David E. Lilienthal, Burleigh B. Gardner, and John P. Marquand. *Edited by W. Lloyd Warner and Norman H. Martin, Harper & Brothers, New York, New York, 1959, 580 pp., $6.50.*

Business Enterprise in Its Social Setting—Despite many historical examples, this book is not a history of entrepreneurship. Instead the author brings the behavioral sciences—psychology, anthropology and sociology—to bear on the history of post-Renaissance business enterprise in order to make some generalizations about the entrepreneur, whom the author considers "the central figure in modern economic development." The author was director of the recently closed research center in entrepreneurial history at Harvard. Among the topics he discusses are: the entrepreneurial function in its social context; the entrepreneur in the underdeveloped areas; the entrepreneur in relation to social change; and the entrepreneur in relation to the state. *By Arthur H. Cole, Harvard University Press, Cambridge, Massachusetts, 1959, 286 pp., $5.50.*

Politics Is Your Business—This small volume, coauthored by an executive of Johnson & Johnson and a Rutgers University professor, is a plea to the businessman to interest himself in civic-political matters. It tells him why he should; it describes training materials and courses; and it offers suggestions on how to become active in the political process. *By W. H. Baumer and D. G. Herzberg, The Dial Press, New York, New York, 1960, 187 pp., $3.50.*

Developing Managers for Decentralized Operations

Pushing the authority for decision making closer to the point at which the decision will be carried out is one of the advantages often stressed for decentralized operations. But it is obvious that decentralization enlarges the responsibilities of the managers down the line who must now make decisions. There is a concomitant necessity to develop managers who will be competent to carry these bigger jobs.

How do companies go about developing executives to man a decentralized organization? Are there developmental advantages to various forms of decentralized structures—product divisions, functional organization, or some other intermediate type? How can a development program be kept flexible enough to serve the varying needs of all a company's units?

These questions, among others, were discussed at a recent Round Table sponsored by The Conference Board. The panelists were:

- R. Carter Wellford, Assistant to Departmental Management, E. I. du Pont de Nemours & Company
- William Verity, Director of Organization Planning and Development, Armco Steel Corporation
- O. A. Ohmann, Manager, Employee Relations Department, The Standard Oil Company (Ohio)

Charles W. Foreman, Vice President, United Parcel Service, served as chairman of the panel.[1]

CHAIRMAN FOREMAN: As this discussion proceeds, you will probably become aware that the man on your left is finding much of what is said old, old hat, while the man on your right is finding these same ideas startlingly new and challenging.

One reason for the different reactions is the amount of experience the individual has had with responsibility in the particular area—not just intellectual curiosity, but actual organizational responsibility.

Another reason for an individual's reactions may have to do with the particular situation in his company or organization. One company is set up along functional lines; another is organized on a product division basis; a third may be in transition from one type of organization to another. In each of these situations it is likely that top management will find something different in the area of management development that will be appropriate. Nothing can be proposed as a program of management development that is applicable in all situations.

This leads to another factor—timing. In every company there is a "right" time for making changes. But, obviously, this varies from company to company. Let me illustrate.

A few years ago a new member joined The Conference Board's management development council; he sat and listened to the oldtimers wrestle with some problems of management development that they were refining for the ninth or tenth time—problems in many cases that their companies had been working on for many, many management generations. Finally this young man from a young company was called on to make his contribution.

"I have never been so discouraged in my life," he said. "You fellows are already discarding things that I haven't been able to get my management to adopt."

Now, most of the principles of management development that will be discussed here are not new. Individual companies have been applying some of these principles for a long time; other principles, although they were developed years ago, have not been widely implemented. However, within the last decade, and particularly right now, managements are beginning to become interested in applying these things which have been "known" for a long time.

Another thing you are likely to come across is the person who is sure something will always work because it has worked in his own company. Of course, the representative of another company is just as sure something else is the answer. When they get together and try to develop some fundamental philosophy that will synthesize the two approaches, we often get generalizations that are so general that they aren't very useful.

Naturally, we don't know as much about management development as we would like to know. But in this decade, for the first time, we are beginning to apply scientific methods in the area of organization design and management methods. And companies that have been in the vanguard in the application of the scientific method to areas such as research, planning and programming, product design, marketing, and

[1] The following is a summary of a discussion held at the 400th meeting of the Board in New York.

the like, will want to keep abreast of some of the trends in management development as well. For this means a competitive advantage—until everybody else in the business begins to do the same thing.

Finally, let me point out that most of us are aware that there are three elements in management development: organization design, management methods, and the development of the men in the organization.

These are different, and yet they are so interrelated that one can't be discussed without getting involved with the others. While our focus today is on whether the design of the organization affects the development of the people in it, we look upon these three elements as an inseparable package.

Developing Managers in a Product-Type Organization

by R. Carter Wellford

AN OBJECTIVE of this Round Table discussion is to bring out similarities and differences in the development of managers in decentralized companies organized along functional lines as opposed to those with the product division type of organization. As an employee of the Du Pont Company, I represent the latter-type organization. I strongly suspect, however, that there may be little fundamental difference in developing managers, especially in their earlier experiences. To give you reasons for this feeling I would like to sketch briefly the Du Pont organization and my assessment of its effect on the growth of individual managers.

While the responsibility for the company's operation is assigned to an executive committee consisting of eight vice-presidents and the president as chairman, the operating business itself is divided among twelve industrial departments, each with a general manager who has authority and responsibility essentially equivalent to that exercised by the president of an independent subsidiary.

Each department has an assistant general manager who functions as the line executive to whom the head of each division within the department reports. Typically, departments have five divisions: manufacturing, research, sales, control, and personnel; but there are many variations in accordance with what the general manager believes to be best. In most instances, the principal division heads also have an assistant who is a line executive, to whom lower management echelons report directly. Thus, within our departments there are well-defined functional lines and it is in these that most young men of management potential get their early experience.

In addition to the operating departments, there are twelve "auxiliary" or staff departments. In all cases where a staff department performs a service for an industrial department, the staff department is expected to sell its services. This system insures to the departmental general manager an authority fully commensurate with his responsibility; he may go outside the company for certain staff services even though the appropriate staff department is willing and anxious to perform them.

Our approach to management development is more a philosophy than a program per se. To us the term means simply the continuing growth of the entire management group to meet the needs of the future. Our objective is to utilize the skills of each individual to the maximum capacity he is able to fulfill and willing to undertake. But we do not feel that there is any one specific course of action which will ensure the adequate growth of management personnel; we have no magic formula.

From the inception of the company in 1802, we have operated on the principle of "promotion from within." To maintain this principle it is obvious that we must continually bring able young men into the lower levels of our professional and supervisory ranks.

Naturally we compete vigorously with other companies in recruiting college-trained men, but I can assure you that the delightful cartoon in a recent *New Yorker* depicting two Du Pont recruiters marching off with a cap-and-gowned graduate trussed up on a pole is a bit exaggerated.

In addition to recruiting college graduates, approximately 500 employees were promoted from the wage roll to the exempt salary roll last year, principally as foremen. We encourage this upgrading from the wage roll, and many of these men continue to advance well up the line.

Training in the early stages is largely an "on-job" program. Typically, we may place recent graduates in research, plant technical, engineering, or sales groups under qualified supervision. Many of these young men move into supervisory positions early in their careers and work their way up through ascending levels of management. They are usually given a series of training programs that cover the background of the company, its operating philosophies, and those of their own department. More formal programs on discussion leading, case problem handling, business economics, leadership, conduct of performance reviews, etc., are frequently employed.

In our view the continued growth of a man is a highly personal thing that is a product of his inner drive to develop himself but which can be materially aided by a blend of coaching and experience on the job; adequate appraisal of potential and discussion of his performance; job rotation or cross-fertilization; off-the-job education, both inside and outside the com-

pany; and help in attaining business understanding.

Even though each of these factors is closely related and there is considerable overlapping from one to another, I think it might be helpful if we analyze them individually.

Coaching and Experience on the Job

Last year when we talked about management development to 200 of our top management people, without exception they felt that the company's emphasis on the responsibility which each member of management must assume for evaluating and developing the people under him has had profound effect not only in bringing along men of high potential but also in continuing the growth of men who may have reached their peak from the standpoint of promotion.

In talking about their own experience individuals usually mentioned the great influence of people to whom they have reported. Invariably they felt that those who have helped them most demanded that a good job be done. But there was also a warmth of relationship and a willingness to go a little beyond the usual in giving broad ideas as to how their jobs fitted into the total picture.

To me this illustrates a very important principle. For a man to really learn through doing, he must be confronted with decisions compatible with his responsibility and authority. Management at higher levels must not usurp his decision-making prerogatives or overrule his decisions—except in the most extraordinary cases.

We asked these 200 top management men in Du Pont: "Since you give great credit to bosses who helped you as you came along the line, how is the present generation of youngsters going to feel about you?" We received some enigmatic grins and answers such as: "Gosh, I hope I am that kind of guy. But the job has gotten so tough around here lately that there just aren't enough hours in the day, and I fear that sometimes I'm thinking too much about things and too little about people."

It is encouraging to me, however, that so many of our management people are asking themselves: "How do we keep the coaches coaching?"; "How do we prevent stifling detail from overburdening management people?"; and "How do we keep them from being too obsessed by the fear of mistakes, too hesitant in sharing broad information, too impressed with protocol, or too busy to give constructive criticism?"

I believe that when a group of intelligent men are sincerely pondering these questions, they will come up with good answers.

Appraisal and Discussion of Performance

In management development it is, of course, obvious that the ability to appraise potential is the crucial starting point. Now how do we get at this question of appraisal? In the first place, the man to whom you report has to appraise you one way or another. He is doing this every day you work for him. Of course, there is danger here, because it is only human to measure subordinates in your own image. But, one might say, "The man's boss has a boss, who also has a boss. Let's get these men together and we'll get a more objective appraisal." This has been called "group appraisal." The cardinal point here, I think, is that people who are really interested in the man and who have the responsibility for him should be better able to look at him as a whole human being.

Let me tell you how this works in one of our departments. The director of manufacturing and the personnel director from Wilmington visit each of the seven plants in that department each year. They first discuss with the plant manager each of the five people who reports to him directly. The plant manager then calls in each of these five superintendents for discussion of the potential of the men in their organizations all the way down to the foreman level. This means that several levels of command are pooling their collective thoughts about their people, thinking in terms of how each one of them developed during the past year, what kind of job he has done, what successes he has had, any patterns in his successes which indicate his best course of future advancement, whether he will continue to grow on his present assignment or would develop faster in another line of work, and how he has developed others. They believe that if this is done annually, without paying undue attention to what has been said in the past, good appraisal will be achieved over the years.

This same principle is followed in the other functional organizations within that department, and general management meets with the divisional directors for similar discussions regarding their key people.

By use of this principle, men are evaluated across functional lines at the point in the hierarchy where the heads of each function report to the same management. In the product-line organization this usually happens at the department level whereas, in the functionally organized company, it usually occurs at the corporate level. There are advantages and disadvantages in both organizational structures. In our case we believe that because of the close relationship with the functional managers within his department, a general manager can obtain good information regarding the potential of his people and plan ahead for the needs of his organization.

In the product-line organization, however, there is the problem of measuring individual potential across departmental lines. Each of our departments translates its appraisals into what are commonly called replacement charts. The departments think of them more as future organization charts; they theoretically realign their organizations on the basis of whom they would

appoint now if certain key people retired or died and whom they would prefer to see in a position several years hence. This, they believe, gives greater objectivity to appraisals and creates a chain reaction down the line which they hope will lead to having several candidates for consideration when any job becomes open.

From an over-all company standpoint, the organization planning division of the employee relations department receives from each department an annual forecast that would include at the upper end those men who are thought qualified to attain general manager status and at the lower end those relatively young employees thought to have substantial capacity for advancement. These forecasts are translated into a personnel inventory chart for each department. A company-wide summary chart is also provided for corporate management. These charts are extensively used by our various departments in implementing our policy of cross-fertilization.

Job Rotation — Cross-Fertilization

The Du Pont policy on cross-fertilization also has been in effect for many years. It is defined as moving managers between locations and fields of work such as sales, plant technical, manufacturing, or research, as well as between departments. In our opinion this not only enables the employee to acquire know-how in more than one phase of our business but more importantly provides an opportunity for him to work in different environments and to benefit from the counsel of different members of management. This latter, particularly, assists in validating appraisals of his performance and potentiality. We have found that consistent appraisal by a variety of people is usually reliable.

The principle of job rotation, of course, is not without its disadvantages. Geographic transfers can pull up a family's roots, and it is often difficult to persuade a company unit to give up a good performer and replace him with a man inexperienced in their line of work.

In our conversations with the 200 members of Du Pont management, however, more than two-thirds voluntarily mentioned the challenging, stimulating, and broadening effect of varied job assignments as having been most significant, both in their own development and the development of their subordinates. It is interesting also that most of these men mentioned the value of job rotation to prevent stagnation of good "average men" who do not have much further potential for advancement; they saw it as a means of stimulating their continued growth in their present levels of responsibility.

Off-the-Job Education

Our philosophy on in-company training is to obtain line management participation in both setting up programs and conducting them.

Some twenty-seven years ago when I was first made a foreman I attended a supervisory development course run by a member of supervision in the plant in which I worked. It impressed me as a good one, too. It was not until 1938, however, that the first company-wide training coordinating group was established in Wilmington. In the employee relations department we now have a central training division composed of three sections: business and economic education, sales training, and supervisory and employee training.

Men from the training division visit plants, sales offices, and laboratories to discuss with the local manager what that unit feels it needs in terms of training. During the visit they can also transmit ideas that they have obtained at other locations. Here is an example of how this approach works: three years ago the manager of one of our plants told a training representative that their greatest need was to give supervisory people a better understanding of how to discuss a man's performance with him. The training representative mentioned that this problem existed at other locations and asked if this plant would work with him in setting up a training program. That plant manager and his staff, working closely with the training representative, came up with a series of procedures which we call "Discussion of an Individual's Performance." To date this program has been used by some 5,000 members of management in other plants and offices.

To sum up, our feeling on in-company training is to keep it fresh, keep it active, and keep it in the hands of line organizations.

At this point you may be wondering whether our policy of promotion from within and our in-company training programs may cause Du Pont to become "ingrown." We are highly cognizant of this danger. One thing that helps us, however, is the fact that our businesses vary widely. For example, sales and manufacturing problems in a product like nylon are almost in another world from those in a product like sulfuric acid. Our long-time emphasis on departmental autonomy has brought wide variation of thinking and procedure from department to department. Thus, through the job rotation principle, we feel we have a constant blending of widely divergent ideas and methods.

Beyond this, however, we are still conscious of the fact that it is possible through the years to generate a more or less Du Pont way of thinking, which might border on smugness. To combat this, we encourage our people to be active in community affairs, trade associations, professional societies, etc. We also make considerable use of Conference Board, AMA and university management courses.

We have no formalized advanced management course within the company nor do we plan to start

one in the foreseeable future. The men contacted in our study feel that through our experience with decentralized management, coaching, cross-fertilization, and off-the-job training, we can help our men obtain understanding of the manager's function at each level of responsibility as the individual moves up the ladder.

Possibly another reason why we do not subscribe to the in-company school approach in Du Pont is that both our departmental and divisional managements have the opportunity through meetings of the general managers, meetings of the sales directors, industrial relations' seminars, etc., to know each other's thinking and get a better feel for over-all company philosophy and problems.

Business Understanding

We all know that as a man progresses up the ladder of management responsibility his horizons must expand far beyond the field of any specialization. We believe that cross-fertilization contributes importantly to a man's understanding of what makes the business tick but it takes more than that to give a man a statesmanlike understanding of the business as a whole.

Most of our general managers periodically review the business health of each of their products in meeting with their division heads, discussing such items as the impact of new technology, advertising budgets, manufacturing costs, employee relations, return on investment, and public responsibility. This gives all the division heads greater awareness of the thinking and problems of one another and of general management. This principle is widely used in our plants, laboratories, and sale offices. We feel that if this procedure is carried out at each level of responsibility it greatly aids in the gradual progression of a man from a specialist in one field to generalist with broad business understanding.

We also make considerable use of short-duration task force assignments where, for example, two or more departments may join in considering the profitability of developing a research discovery into a marketable product. Normally task forces are made up of a blend of the "young up-and-coming" and the "experienced tried-and-true." This minimizes the danger that men so assigned will get the reputation of being "crown princes."

In summary, it seems to me that there may be more similarities than differences in the problem of developing managers in decentralized companies organized functionally and those organized along product division lines. To illustrate, let's take a brief look at each of the five headings we have just discussed.

Coaching and Experience on the Job—Certainly experience on the job and coaching by the boss are pretty much the same in both principle and execution.

Appraisal and Discussion of Performance—Likewise, the problems of appraisal and discussion of performance are quite similar in either type of organization. It may be, however, that it is somewhat easier in the product division organization to appraise across functional lines because all of the functions are usually contained within the operating organization and, hence, can be considered by a somewhat lower level of management.

Job Rotation—Cross-Fertilization—When we come to job rotation—cross-fertilization, however, I believe the product division type of organization may have a definite advantage because it would seem easier for a general manager to be able to stimulate cross transfers between his sales, manufacturing, research, and control divisions than for an executive vice-president in the functional-type organization. In other words, functional lines usually merge at a lower point in the hierarchy in the product division organization, but this may be more a matter of size than organization.

Off-the-Job Education—As far as off-the-job education is concerned, it appears to me there is little fundamental difference between the two types of organization in either "in-company" training or education outside the company.

Business Understanding—Finally, in regard to business understanding, I again believe that the product division type of organization may have an advantage. Here again sales, research, manufacturing, and control would seem to come together at a lower point in the hierarchy and thus allow the department head a better opportunity to give his division managements a greater understanding of all facets of the business.

Developing Managers in an Organization in Transition

by William Verity

AT ARMCO we believe that a company's profit-making ability can only be as great as the combined skill of all its managers, from the foreman to the president. For this reason, over the years, we have engaged in all kinds of training and development programs for management people.

But at this time we have particular problems at Armco Steel Corporation that have required the executive management to focus its attention on the need for more broadly qualified managers.

This is the background. Since World War II our steel divisions have doubled their ingot capacity to six million tons. Sales have more than quadrupled in the

last few years and are now over the one billion dollar mark—fourth in size in the steel industry. As far as people are concerned, recent mergers have increased the number of employees from 32,000 in 1957 to 44,000 in 1960.

Another real problem has to do with our transition from a functional type of organization to a divisional organization. In making this change we have created a very definite need for broadly qualified management people. Instead of one company with one set of managers we now have six "companies" in Armco, each a product division and a separate profit-center unit. Each must have a full component of management.

We also have seven corporate staff groups establishing policy, establishing controls, and providing guidance for bringing the corporation together. Therefore we need broad specialists, people who have had wide experience in our company. And we need to get them to headquarters so that we can take advantage of this broad experience.

To add to the urgency, we have had an executive turnover problem. That is probably familiar to all of you. But perhaps it has been a bit more acute here at Armco. Three years ago a policy of mandatory executive retirement at sixty-five was instituted. And in the first three years we lost 33% of our top executive group. In the period 1959 to 1963 we will have another 31% turnover from retirement alone.

Historically, Armco has promoted from within the corporation. As you all know, that has always carried with it the responsibility for developing employees. But to preserve this policy now requires that we do things on a bigger scale than ever before if we are to be successful in developing broad managers for our divisionalized organizational needs.

Finally, there is the matter of preserving Armco's policies and philosophy of management. Our merged companies have only been with us two or three years, and they have a philosophy of management of their own. Armco cannot survive as one company unless all of the units come together and accept the same philosophy of management. I am sure that many of you are familiar with this problem, but our general management is very sensitive to its importance.

HOW TO GET THE MANAGERS?

You can see that these are problems that are specific to Armco and current at Armco at the moment. And, obviously, they intensified the question of how we could develop our managers. We had management development programs in each of the divisions. We had already identified potential executives through appraisal programs that were proceeding well in the divisions. We were also sending our executives to Conference Board seminars, to executive development courses at universities, to AMA conferences, and so forth.

But how were we going to explain our new type of organization? How were we going to unify our company?

One suggested answer was that every two months we bring twenty-five potential executives into headquarters for a six-day seminar. They would hear exactly what the company was doing from the heads of the various divisions and departments, and they would learn the principles of management from a consultant. At this point, our general management said, "Why not put us through this program as guinea pigs to see just how good it is?" It turned out to be a complete flop!

The basic reason was that many of our general managers were fine administrators but, in explaining their operations or organization, they used too many words and too few visual aids. The people taking the program were going to sleep. Furthermore, we realized that this would take too long to train 5,000 managers; and that is the number we have to train.

We backed off and started all over again. This time, general management decided it wanted a program that the divisions and subsidiaries could present in their own plants or sales offices; it wanted a program that was suitable for all levels of managers; and it wanted a program that the line manager himself could present to his own people.

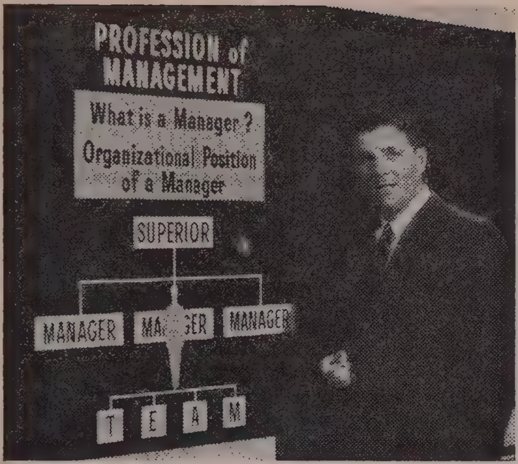
Furthermore, this program was to have the following objectives:

- Assure that all Armco managers know what Armco is today, how it fits together, what its products and markets are, and where its plants are located.
- Help solidify Armco's management team and assure an understanding of the management principles in effect at Armco.
- Preserve the policy of promotion from within.

To meet these objectives, a comprehensive plan of manager development was worked out. Approved by general management, it was published in brochure form in October, 1958.

One element of the plan was communicating the concepts and policies of general management to all managers. Second was finding, appraising, and selecting people through an appraisal and inventory program. A third was on-the-job training, and a fourth was training off the job.

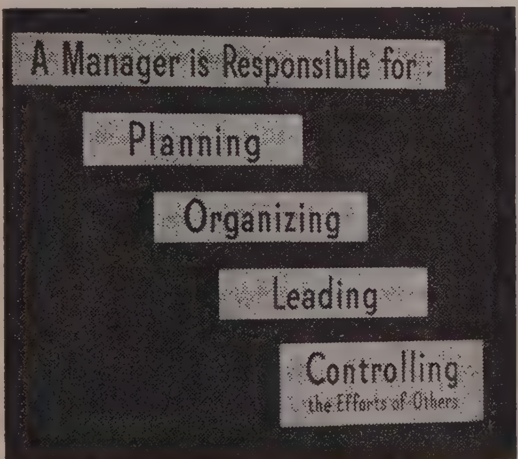
I will try to describe today our programs for communicating general management concepts to managers throughout all the divisions and operations of the company. It was decided that there were three things to do. First, "Armco Policies," the constitution of the company, originally published over forty years ago, should be clearly known and understood by all employees. In addition, basic corporate policies should be published for guidance throughout the organization.



The "Profession of Management" series consists of six films, the first of which deals with the role of the manager in general. Here Louis A. Allen, whose lectures on management form the basis of the series, discusses the manager as a link between work teams at different levels in the company.

"The Profession of Management"

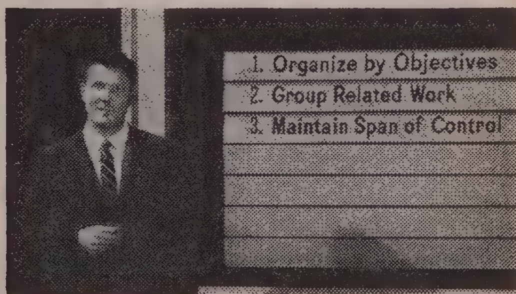
An Armco tool for developing managers



The work of the manager is considered under these four headings. A separate film is used for each of the topics except "leading" for which two films are used. Screening time for the individual films varies from twenty-five to thirty-five minutes and each is shown twice in the training program.

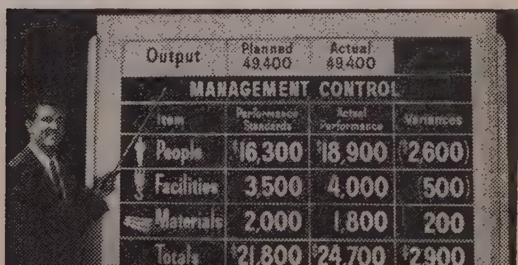
Charts, models, and other visual aids are used throughout the series to underscore points made in the lecture. Sometimes sketches employing professional actors are used for emphasis; for instance, in this scene two men are preparing programs and schedules as part of their planning responsibilities.

The sessions on organization discuss both the functional and product division types of structures and develop principles of sound organization. This topic is of particular importance to Armco now because it is currently restructuring the company to integrate newly merged units and to encompass greatly expanded operations.



Each topic is introduced by a showing of the appropriate film. Then the topic is discussed by the participants for the remainder of the two-hour session as well as at the beginning of the next. At the conclusion of that session, the film is shown again as a review of what has been learned.

Mr. Allen is illustrating control by means of reports of variances from established standards of performance. Each participant in the program is given six booklets containing stills from the films and the complete text of Mr. Allen's talk. Each manager who leads the discussions at the company's various locations is given a leader's manual.



Second, we prepared a forty-five minute color movie to show all Armco people what the company is today. This film discusses Armco's new divisionalized organization structure, early history, location of plants and markets of our six companies, and the importance of people and research in our growth.

Our third job was to tackle the problem of how to broaden our management people so that they could become the type of manager needed in our new organization. Though we firmly believed that only individual development can produce developed managers, we also recognized the need to improve and broaden the art of managing among all Armco managers. This was to be accomplished through "The Profession of Management" program.

It is a program that we hope will be successful in helping our management people understand the skills of management and the fact that these skills can and must be learned if an individual is to grow.

The program provides a means for communicating Armco's philosophy and concepts of management to our management people at local plants and sales offices throughout the world. With this approach, these principles can be discussed in light of local conditions and as applied to a specific job or problem.

And lastly, line managers present the program to their own people. Staff only helps them with the normal routine training aids.

HEART OF THE PROGRAM

The heart of our program is a series of six films, each of which runs for thirty-five minutes. These films are based on a concept of management developed by Louis Allen, who I am sure is familiar to many of you as a former representative of The Conference Board. The concepts, as developed by Mr. Allen, were adapted to Armco. The films were prepared by the Jam Handy Corporation, which has done a splendid job of visualizing management principles.

The films are shown in a minimum of twelve conference sessions. After a single showing, the manager and the people reporting to him discuss the principles presented as they apply to local problems and conditions. The manager is provided with conference material which was developed by representatives of training groups from each of our divisions. He may use this as a guide in discussing the principles. The film is repeated at the next session, which means that the full course is given in twelve two-hour sessions, with each film shown at least twice.

Each manager is given six booklets which contain a complete transcript of all words spoken in each of the six films. These booklets become his personal library and reference source for the development program.

Through this method, Armco's management philosophy and methods of control and communication can be taught quickly and effectively in our hundred plants, sixty division and district sales offices, and in the sixty countries in which we operate abroad.

The first film is on the profession of management and serves as an introduction to the program. The next five films cover what we believe are the four principal functions of a manager: planning, organizing, leading, and controlling. The activities of management that come under each of those headings are described in detail in the films.

Under "planning" there are seven activities: forecasting, objectives, policies, program, scheduling, procedures, budgeting. Under "organizing" we have structure, delegating, and relationships, which concern staff and line. In "leading" there are five breakdowns: initiating, deciding, communicating, motivating, and developing. Finally, "controlling" involves performance standards, reporting, evaluation of results, and corrective action.*

FOR THE LONG TERM

I would like to point out that this is not a crash program at Armco. We recognize that over the next five to ten years we are going to have an increased need to build broad managers. We think that it is going to take that long to do it. We look at this as a full management seminar that can be used throughout Armco for all levels of supervision. It is being given by the president of the company to the vice-presidents, by the vice-presidents to the works managers, by the works managers to the superintendents.

The program is still too new for me to give you any evaluation of whether these films and the related materials are accomplishing the established objectives. But I can tell you that as of this moment they are being well received, and management is optimistic about attaining its objectives. At our general headquarters, the various corporate officers are presenting the program to corporate staff associates; in the operations of our divisions and subsidiaries, such as Baltimore, Butler, Pennsylvania, Kansas City, Houston, and Ashland, Kentucky, the line managers are conducting the course for their people. The president of Armco International will give the course to all the managers in South America in April, while the regional director for Europe is giving it to all the European people in March.

One thing that has already happened is that our top seventeen executives, who worked with Lou Allen in adapting these principles to Armco, understand and accept that they must manage as professionals if there is to be any belief by others in the company that these principles are sound and basic. I think that any one

* The audience was shown clips taken from the films on planning, organizing, leading, and controlling. The first covered policies in planning. The second was a discussion of divisionalized organizations versus functional organizations. The third clip had to do with motivation as one of the functions of leading, and the fourth was concerned with the control concept.

of those seventeen people would tell you that they already have received tremendous value out of this because they have had to think objectively about the principles of management and how the skill and techniques of management can be passed along successfully to others.

We hope by means of this program to communicate to our managers the skills of modern management and Armco's philosophy of management. The benefit to the individual manager will be an understanding of what he must personally do in order to develop and broaden himself sufficiently to become a qualified manager in tomorrow's competitive business world. He is exposed to the principles, but he can only learn them through use on his own job, through his dealings with others.

Developing Managers in a Functional Type of Organization

by O. A. Ohmann

IT MIGHT be helpful if I directed attention to some of the recent changes in thinking with respect to management development. Therefore, I shall limit myself to three or four critical observations based on our experience at Standard Oil of Ohio.

Our early management development effort suffered from too much emphasis on people, their shortcomings, and how to make them over into better managers. In recent years we have moved from a man-centered to an operations-centered approach. In retrospect it appears that we fell into the booby trap by sheer logic. The thinking went about as follows. People are the most important asset. Managers are the most important people because they determine the success of the company. Poor results are attributable to poor managers. If we can correct the weaknesses in our managers, operating results will improve.

This led us to make appraisals of managers, find their weak spots, and counsel them until the spots changed. There was only one problem: How do you change the spots of a fellow forty-five years old?

We have revised our logic slightly. We now assume that the function of good management is to produce desired operating results. If we can conduct our business so that we improve both short-term and long-term profitability, then we must have pretty good management. We assume that if we win more ball games, we must be developing better players.

So now we focus on getting better operating results. This is a simpler and more natural thing for our managers to do. It takes us out of the psychiatric business and puts us back in the oil business, which we think we know something about.

You will see immediately that this shift in point of view leads us to ask some very naive but fundamental and difficult questions: What results should we reasonably expect to get in view of all the existing circumstances?

THE OBJECTIVES AND THE TIMING

When we try to describe these specific objectives so that everybody understands them, we find that we are reaching for measures of performance. This often reveals that many of our operating figures are not very meaningful, and that a manager and the executive he reports to may attach quite different importance to the same figures. In most cases this sets off a determination to develop better measures of operating results; and the effort continues from year to year. Perhaps this is the real secret of managing better.

For example, let us assume that Manager A has several managers reporting to him—B(1), B(2), B(3), etc. A will set a date with each of the Bs for a review of operations and planning for the next year. Both A and the Bs will review the figures and consult with their various assistants in an effort to crystallize objectives for the period ahead. Manager A and each B can then get together to review the results in each major segment of the operation and to agree on the main goals for next year.

Having developed a list of objectives, they next agree on the relative order of importance of these objectives, spelling them out in terms of specific jobs to be accomplished by definite dates within stated dollar limits. Having committed themselves to the objectives, they can discuss plans for achieving them. While developing and clarifying these plans for action, A can introduce whatever coaching, counseling or guidance he deems appropriate or necessary. He can raise questions about any aspect of performance, such as the kind of controls or follow-up that will be used, or just how the plan will be handled with B's assistants, or what the union reaction might be and how best to deal with it.

Usually before the session is closed they agree on some dates for the review of progress. On these occasions it may be necessary to adjust the objectives or plans in the light of all the circumstances. Since both A and B are committed to the goals, B feels freer to use any specialists on A's staff. And, at the end of the year, the entire process of planning ahead and coaching is repeated.

But usually the process is not repeated in exactly the same way. Managers discover that this is a method of managing. They introduce some creativity and try out new ideas. For example, some of our

A-level managers have found that it is a good idea to have all of the B managers meet with them in a conference session to discuss broad over-all departmental goals before starting the process of working with each B manager individually. This conference provides an opportunity for A to share some of his concerns with his B managers and give them a broader perspective on the company's problems and prospects. It permits each B manager to look at his own job through A's eyes. I think you can visualize a lot of interesting possibilities for innovation in such a setup.

Thus we have moved from a program of judging a man and trying to change him to diagnosing what is wrong in the business operation and then planning to get desired results. This shift in emphasis has been well received by our managers. While formerly it was difficult to get them to make appraisals of their people and even more difficult to get them to do the counseling, we find that they are quite willing to take a great deal of time for this new procedure. When I asked one manager whether this was excessively time consuming he replied, "What else more important do I have to do? This helps me to get my job done." With the use of this method of managing, the development of managers is a natural by-product of running a more profitable business.

The new approach caused us to re-examine some of our other assumptions, and this leads me to my second major observation, namely, that we need to broaden our perspective and approach to management development. If the object of management development is to get better operating performance today and in the future, then we must face the obvious fact that these results are a function of a variety of influences, many of which may be beyond the control of a particular manager.

CHANGE SYSTEM, NOT INDIVIDUAL

The results a manager can achieve will depend in large measure on the decisions made by higher levels of management. For most managers, the decisions of others determine such important things as whether the company's over-all objectives and policies are sound and realistic; whether the organizational structure is appropriate; whether delegation is broad or narrow; whether the operating controls used by higher management as a basis for judging results and giving rewards are compatible with the objectives of management development; whether the long-term employment and compensation policies and practices have produced a poor work force which cannot be cleaned up under established personnel policies; whether the managerial climate facilitates or frustrates executive decision and action.

You will recognize immediately that these are only a few of the conditions which may affect organizational effectiveness and operating results more than all the coaching and counseling you can pack into any program of management development.

Perhaps we have been spinning our wheels trying to develop managers to fit into an existing organizational situation which is basically unsound and which, therefore, teaches faulty management theory and practice. We need to look at the management system within which a manager operates to see if greater dividends cannot be obtained by changing *it* rather than *him*.

For example, we have found a number of instances

The Post-Appraisal Interview

After his four or five superiors get through judging B without B's being present at the trial, they all vote for A to bring the sad news to B. Now this is something that is quite foreign to what either one of these people had ever been involved in before. A calls B and says, "I would like to go over your performance and give you some suggestions on how you can improve. Suppose we get together Wednesday afternoon."

Maybe A takes B out for lunch first in order not to be too formal and to break the ice. All the time they are having lunch, B is getting worse and worse indigestion. Then, finally, when they get back to the office, A says, "How is the family? And how was that fishing trip you were on? Did you catch anything?"

Meanwhile, B sits there knowing that this isn't what A called him in for and wonders when the ax is going to fall. He's not really listening to A but thinking all the time "If A brings up this thing I know what I'm going to answer." So B thinks about all his defenses and prepares himself.

Finally A starts on the performance review and says, "Now, you have done a very nice job on this, and you have done beautifully on this other, and I certainly like what you did over here." Naturally, B wonders at this point if he is going to get a raise. But then A says, "Now there is just a little thing that I do want to discuss with you, and that is your human relations." Then A gives B some suggestions on how to change his human relations—after B has spent forty-five years practicing getting along with people the way he has been doing.

So a little argument starts, and A thinks: "Do I really have the proof? Do I have the goods on this guy? If he questions me can I really prove my case?" But all he says is "Your relations with people just aren't good!"

It was this sort of thing that made some of our managers say, "Look, this can't be right. This is too hard. And when you look at the results a year or two later the fellow still has the same human relations that he always had." It was actually some of our management people who suggested that they could talk more comfortably about the work and what they wanted a man to do on the job. I was a little slow at learning but I finally took the hint and reworked it that way.

—O. A. Ohmann

in which a manager was appraised as being weak and ineffective. A year or so later the same manager was judged as having improved tremendously after an organizational change had been made for entirely different reasons. In retrospect, it was obvious that the organizational structure and relationships produced the poor results which had been attributed to the manager's ineffectiveness.

It was experiences of this sort that led us to combine organization planning and management development, and also to relate executive incentive compensation to these efforts. Certainly the management development staff man should be a sensitive diagnostician of the principal environmental and organizational factors that stand in the way of getting better performance. He will frequently make more headway by tackling some of these conditions.

NOT TOO NARROW

My third observation is a further caution against too narrow an approach to management development. It is important that every operating manager recognize various approaches to management development rather than ride one hobbyhorse, such as appraisal and counseling. Perhaps a mere listing of the principal aspects of management development will suggest the need for attacking these problems on more than one front.

For instance, every manager should forecast how many people he is going to need, see how many he has that he can count on, what his potential supply is, and then lay recruitment plans to make up any gaps.

A second aspect is management manpower utilization, by which I mean planning job exposure or special assignments for highly promotable people to be sure they are ready for a certain level of management by a specific date.

A manager should also plan how he is going to clean out dead wood in the organization. If all of the jobs at a certain level are blocked with people who are satisfactory but who prevent promoting anybody to that level or levels above, some different utilization of people may be called for. In filling vacancies the manager will certainly want to pay attention to providing for the company's longer-term goals as well as for the immediate operating requirements of the job.

The third important aspect of management development has to do with improving recruiting and selection. And I mean by this the company's total employment system—who does the hiring, how the selection is made, etc.—because, in the long run, this determines the quality of the ballplayers on your team.

The fourth aspect has to do with manager development through better supervision and by coaching and counseling within the framework of the work rather than the person.

The next front is compensation and rewards. To be really effective, they must pull in the same direction as management development efforts.

The next thing a manager should be concerned about is the organizational design; this should create relationships between units that will effectuate the company's over-all objectives.

An aspect of management development that we rarely hear about is how to preserve the health of a company's key people. I remember Colonel Urwick, the British management specialist, saying that he simply couldn't understand how we take so much time, pain, and effort to develop a manager and then work this one-man-in-ten thousand to death, paying no attention to his health.

Still another aspect of management development is research on the processes of management. Every manager should take some responsibility for seeing that the problems which need to be studied are brought to the attention of someone who will study them, whether the "someone" is a staff group or an outside research organization.

Finally, it seems to me that we make a great mistake in most of our companies in not sufficiently delineating the manager's official role from his role as an individual in terms of the loyalties and friendships he may develop with his people. In Sohio we have tried in recent years to make a sharp distinction between the official responsibility of a manager for the company's work and his nonofficial personal relationships with his employees.

Now, I am not necessarily advocating that every manager should take this as a complete package of management development and concentrate on all these fronts at the same time. But I am suggesting that he should view his total organizational situation diagnostically in terms of seeing which of these ap-

"This, Too, Shall Pass Away"

I have some misgivings about being here today. Just five years and two days ago I had a similar part on an NICB panel discussing management development. At that time many companies had no formally organized program of management development, so the panel could speak with confidence—and it did.

The other day I reread my paper for that occasion and was consoled only by the dependability of human forgetfulness. A fair percentage of what we thought and did then we no longer think and do. Extrapolating, I should be able to give you a "discount factor" to apply to my remarks today; the only difficulty is that I cannot tell you exactly *which* of the things I will say today are untrue.

—O. A. Ohmann

proaches to organizational improvement most need to be worked on at this time, rather than limit his consideration to one approach.

Finally, this panel is supposed to discuss the relationship between the corporate organization and the role of managers. I was listening to what Mr. Wellford said on this point and it seemed to me he summed it up very well. You have a functional organization in every company whether or not you have a divisional form imposed on top of it. In the divisional form of organization you have a lot of functional organizations that have some corporate affiliation.

In our company, the petroleum end of our business is organized functionally, with crude oil exploration and production, pipeline transportation, refining, marketing, and finance. But we also have a chemical division, and we have some subsidiaries, and we have some joint ventures which are entirely independent operations. So I think we are both a functional and a product type of organization, and we are in transition, too. But essentially the problems and processes of management, it seems to me, are going to be very much alike regardless of the form of corporate organization.

The one exception is that in a functional organization, you have the problem of developing successors for the presidency. I think you are all aware that a man who comes up through one function, such as marketing or manufacturing, is handicapped in learning about finance and all the other aspects of the business.

In a divisional form of organization there are a number of "general manager" positions that serve as excellent training spots for the presidency. In respect to training future presidents, and top corporate officers, the product division organization has some very decided advantages.

These then are some of my current biases. Which of these will turn out to be true and which false five or ten years from now I shall not try to predict. But I have tried to indicate to you the direction in which we have been moving in our thinking.

Management Bookshelf

Leadership, Psychology, and Organizational Behavior—Social scientists have been saying for some time that the individual cannot be fully understood without a study of his group life. This book brings together the findings of hundreds of researchers—principally those classified as social psychologists—and attempts to integrate them into one general theory of human interaction and organizational behavior. Although written primarily for college students, it includes a number of studies dealing with the individual as a member of a work group that may interest businessmen. *By Bernard M. Bass, Harper & Brothers, New York, New York, 1960, 548 pp., $6.50.*

McMurry's Management Clinic: Solutions to Eighty-nine Management Problems about People—Popularly written and designed to be read at odd moments during the executive day, this book takes the direct question-and-answer approach to the psychological aspects of management. A topical outline at the end of the book summarizes the major points of the philosophy of the authors, who are management consultants. Discussed are questions on company organization, executive training and evaluation, communications, promotion, compensation, employee morale and labor relations. In solving many of their problems, the authors emphasize the importance of understanding power relations within a company. *By Robert N. McMurry in collaboration with Ruth G. Shaeffer and Lawrence E. de Neufville, Simon and Schuster, New York, New York, 1960, 207 pp., $4.95.*

Management in the Industrial World: An International Analysis—Although this book includes management studies of twelve countries by eight different authors, it is more seminar than anthology, for all the authors work within the confines of a single conceptual framework. Management in each country is analyzed alternately as a system of authority, as an economic resource, and as a class or elite so that the authors can ultimately arrive at universal "basic trends of managerial growth." Attention is also devoted to the way in which industrialized countries develop management and underdeveloped ones generate it. Countries studied are India, Egypt, Chile, Israel, France, Italy, Japan, Germany, Sweden, Great Britain, and the Soviet Union. In addition to articles by the authors, the book includes work by Irvin Sobel, Eugene W. Burgess, Franco Ferrarotti, Heinz Hartmann, W. H. Scott, and Ralph C. James. It is a joint project of the industrial relations sections of Princeton University and the Massachusetts Institute of Technology. *By Frederick Harbison, Charles A. Myers and others, McGraw-Hill Book Company, Inc., New York, New York, 1959, 413 pp., $7.*

Interprofessional Training Goals for Technical Assistance Personnel Abroad—This paper-covered book is a report of an interprofessional conference on training of personnel for overseas service. The conference was sponsored by Cornell University and the Council on Social Work Education. Part One's subject is "The Professional Person as an Agent of Change"; Part Two, "The Analysis of Social Change"; Part Three, "Training Professionals as Change-Agents Abroad." An appendix includes five special papers. One subject is entitled, "Interrelationships among Agricultural Development, Social Organization, and Personal Attitudes and Values." *Prepared by Irwin T. Sanders, Council on Social Work Education, New York, New York, 1959, 198 pp., $3.*

AFL-CIO Maps Election Year Political Role

THE DETERMINATION of labor's role in politics for the coming year was one of the pressing problems that faced the twenty-nine-member AFL-CIO executive council at its winter meeting this February in Bal Harbour, Florida. Still smarting at the passage of the Labor-Management Reporting and Disclosure Act by a Congress considered to have a heavy concentration of trade-union-endorsed Congressmen,[1] the executive council evolved what it considers new guideposts for federation activity in the presidential campaign.

Newspaper accounts in recent months have hinted that some union leaders, disappointed with events in Congress, feel that labor should "sit out" the campaign. Speculation that labor might take a hands-off attitude ended abruptly when George Meany, the federation's president, announced that while no definite decision has been made, he is "quite sure" that the AFL-CIO will support a presidential candidate. However, such approval, it is warned, will follow a close examination of the activities of both political parties. The program adopted by the AFL-CIO's executive council for the presidential campaign, as announced in the *IUD Bulletin*, monthly publication of the AFL-CIO's Industrial Union Department, includes the following steps:

- Noninvolvement in primary elections for presidential candidates except in one-party states.
- Presentation of labor's views to the platform committees of both parties, prior to the convention.
- Examination by the executive board, subsequent to the convention, of the platform commitments and records of the individual candidates before "determining the AFL-CIO position and its recommendation to its members."
- No endorsement by state central bodies of delegates pledged to the support of candidates in either party, with, however, freedom for individual union members to take an active role in primaries.

Many observers thought that trade union disappointment with the actions of Congress would lead to substantial changes in union political activity. *The CWA News*, the Communications Workers' paper, indicates, however, that the only change that is likely to occur will be an intensification of effort along the usual lines. Arguing that historically politics has been a trade union function, the union periodical points out that the political activity of labor has helped bring about a system of free public education, child labor laws, establishment of the United States Department of Labor, and better housing. Even at its first convention in 1881, the article asserts, the American Federation of Labor's platform advocated specific pieces of legislation and called for the election of Congressmen who would support these measures.

TODAY'S LEGISLATIVE PROBLEMS

Focusing attention on today's legislative problems, the executive council proposed a program which it will urge Congress to adopt during the year. This program, reports the *IUD Bulletin*, backs a $1.25 minimum hourly wage, the Thompson school construction bill, the Forand bill to provide free medical care for Social Security beneficiaries,[1] the Rains housing bill to "answer the nation's housing needs," and a federal law insuring greater conformity among the states in the area of unemployment compensation.[2] Many of these bills are among those which the AFL-CIO had asked Congress to enact last year.

In speeches before the executive council and the legislative conference of the Building and Construction Trades Department, Mr. Meany appealed for abandonment of the administration's present "status quo" economic policies and the adoption of a new "growth" program. These counterproposals, George Meany declares, would increase the "gross national product at the rate of 5% a year" and prevent a possible "recession sometime in 1961."

He added that the government can, "by encouraging healthy economic expansion, get all the funds it needs to pay for defense purposes, for scientific research, for the construction of schools, for an effective housing program, including slum clearance and urban

[1] "Report of the Executive Council of the AFL-CIO," p. 253: "The records of labor endorsements prior to merger are incomplete, but all available information points to the fact that more labor-backed candidates were elected to office in 1958 than in any previous year since 1948." Twenty-three out of thirty Senatorial candidates and 182 out of 294 candidates for the House who were backed by AFL-CIO state and local bodies were elected.

[1] For further details on how the AFL-CIO feels about the Forand bill see "AFL-CIO in Drive for Old Age Medical Care," *Management Record*, March, 1960, p. 31.

[2] For more information on the proposed legislation on unemployment compensation see "State Unemployment Administrators Censured," *Management Record*, December 1959, p. 410.

renewal, for building better roads and airports, for providing more adequate hospitals and public health services, for improved water supply and sewage disposal and for the industrial revival of depressed areas —all this without raising tax rates."

An equally important demand in this year's federation program is for legislation to eliminate discrimination in voting and for the authority to institute civil suits in federal school desegregation proceedings. This, George Meany emphasized, will show the world that all races in America are "entitled to political and economic equality of opportunity."

At its convention last September, the AFL-CIO announced its political program for this year's Congressional elections. At that time, the federation urged a campaign to insure voting registration of trade unionists, to distribute widely the voting records of all Congressmen, and to raise funds for the election of Congressmen pledged to "wipe from the statute books all laws which hamstring and hamper the growth of the American labor movement."[1]

ANTHONY P. ALFINO
Division of Personnel Administration

[1] Third Constitutional Convention of the AFL-CIO, 1959 Resolution #145, adopted fourth day, afternoon session, and Resolution #169, adopted fifth day, afternoon session.

Employee Inoculations Justified

CAN A COMPANY doctor immunize employees against a disease like Asian flu and consider his action an ethical part of the company's preventive health program?

This question has long been debated by groups that are concerned with determining what medical services a company is justified in offering employees and what services may go beyond the realm of preventive medicine. Now, however, the immunization issue is resolved insofar as medical ethics are concerned.

The American Medical Association's Committee on Industrial Health Emergencies[1] has issued a statement that justifies employers' offering employees an opportunity to be inoculated against a disease that may become an epidemic.

The statement as published in the *Journal of the American Medical Association*[2] follows.

* * *

Guide for Industrial Immunization Programs

The following statement, prepared by the Committee on Industrial Health Emergencies of the Council on Industrial Health, has been approved by the Board of Trustees of the American Medical Association.*

B. DIXON HOLLAND, M.D., *Secretary*

HEALTH MAINTENANCE is primarily the responsibility of the individual person; however, the employer has an obligation to provide a safe work environment for his employees, and he has a valid interest in the prevention of loss of work time and of work efficiency from his employees' ill health. Definitive diagnosis and therapy of nonoccupational injury or illness is not a responsibility of the employer; but he may provide certain preventive health measures in a given situation where the employee, the employer, and the community stand to benefit. While it is impossible to foresee every situation which might occur locally where an employer might properly make immunization procedures available to his employees, the following principles are offered as a guide.

1. Toward fulfillment of his obligation to provide a safe work environment, or to take appropriate precautionary measures, an employer should provide immunization procedures to employees who, by reason of their occupation or job assignment, may be exposed to significant hazards against which immunization procedures are available.

2. In keeping with his legitimate right to operate efficiently and profitably in a free enterprise system, with his responsibility to the community, and in demonstration of his good corporate citizenship and concern over his employees' health, an employer may provide immunization procedures in the face of an impending epidemic which threatens to disable so large a proportion of his employees as to interfere materially with operations and against which immunization procedures could not be applied by community health resources in a short enough period of time to afford the optimum protection. The component medical society's approval of company immunization programs conducted under these circumstances should be sought, and, to the extent feasible and practicable, local physicians should be afforded an opportunity to participate in them.

3. Additionally, an employer may wish to participate in community-wide immunization programs at the request of and in cooperation with a local medical society and community health agencies.

[1] The committee is a unit of the association's Council on Industrial Health.

[2] The statement was published December 12, 1959.

*Committee members are Norvin C. Kiefer, Ch., New York; Cortez F. Enloe Jr., New York; Allan J. Fleming, Wilmington, Del.; John N. Gallivan, East Hartford, Conn.; James H. Lade, Albany, N. Y.; Eugene Walsh, Chicago; and Lee N. Hames, Secretary, Chicago.

Significant Labor Statistics

Item	Unit	1960		1959					Year Ago	Percentage Change	
		Feb.	Jan.	Dec.	Nov.	Oct.	Sept.	Aug.		Latest Month over Previous Month	Latest Month over Year Ago
onsumer Price Indexes (BLS)											
All Items	1947-1949 = 100	125.6	125.4	125.5	125.6	125.5	125.2	124.8	123.7	+0.2	+1.5
Food	1947-1949 = 100	117.4	117.6	117.8	117.9	118.4	118.7	118.3	118.2	−0.2	−0.7
Housing	1949-1949 = 100	131.2	130.7	130.4	130.4	130.1	129.7	129.3	128.5	+0.4	+2.1
Apparel	1947-1949 = 100	108.4	107.9	109.2	109.4	109.4	109.0	108.0	106.7	+0.5	+1.6
Transportation	1947-1949 = 100	147.9	148.1	148.7	149.0	148.5	146.4	146.7	144.3	−0.1	+2.5
Medical care	1947-1949 = 100	154.7	153.5	153.2	153.0	152.5	152.2	151.4	148.6	+0.8	+4.1
Personal care	1947-1949 = 100	132.6	132.7	132.9	132.7	132.5	132.1	131.7	129.8	−0.1	+2.2
Reading and recreation	1947-1949 = 100	120.6	120.3	120.4	120.0	119.7	119.6	119.1	117.1	+0.2	+3.0
Other goods and services	1947-1949 = 100	131.8	131.8	131.7	131.6	131.6	131.5	131.1	127.4	0	+3.5
mployment Status (Census)											
Civilian labor force	thousands	68,449	68,168	69,276	69,310	70,103	69,577	70,667	67,471	+0.4	+1.4
Employed	thousands	64,520	64,020	65,699	65,640	66,831	66,347	67,241	62,722	+0.8	+2.9
Agriculture	thousands	4,619	4,611	4,811	5,601	6,124	6,242	6,357	4,692	+0.2	−1.6
Nonagricultural industries	thousands	59,901	59,409	60,888	60,040	60,707	60,105	60,884	58,030	+0.8	+3.2
Unemployed	thousands	3,931	4,149	3,577	3,670	3,272	3,230	3,426	4,749	−5.3	−17.2
Vage Earners (BLS)											
Employees in nonagricultural establishments, total	thousands	p 52,236	r 52,302	r 53,989	53,021	n.a.	n.a.	n.a.	n.a.	−0.1	n.a.
Employees in nonagricultural establishments, without Alaska & Hawaii[1]	thousands	p 52,012	r 52,078	r 53,756	52,793	52,569	52,648	52,066	50,315	−0.1	+3.4
Manufacturing	thousands	p 16,499	r 16,467	r 16,484	16,280	16,197	16,367	16,169	15,771	+0.2	+4.6
Mining	thousands	p 661	r 656	r 668	660	621	620	639	693	+0.8	−4.6
Construction	thousands	p 2,377	r 2,447	r 2,699	2,856	2,961	3,043	3,107	2,256	−2.9	+5.4
Transportation and public utilities	thousands	p 3,881	r 3,882	r 3,940	3,912	3,910	3,927	3,922	3,835	A	+1.2
Trade	thousands	p 11,351	r 11,440	r 12,345	11,723	11,551	11,464	11,360	10,990	−0.8	+3.3
Finance	thousands	p 2,440	r 2,431	2,438	2,438	2,441	2,452	2,474	2,371	+0.4	+2.9
Service	thousands	p 6,483	r 6,469	r 6,547	6,593	6,614	6,617	6,582	6,333	+0.2	+2.4
Government	thousands	p 8,320	r 8,286	r 8,635	8,331	8,274	8,158	7,813	8,066	+0.4	+3.1
Production and related workers in mfg. employment											
All manufacturing	thousands	p 12,480	r 12,452	r 12,466	12,274	12,201	12,373	12,173	11,937	+0.2	+4.5
Durable	thousands	p 7,261	r 7,237	r 7,173	6,922	6,786	6,847	6,679	6,794	+0.3	+6.9
Nondurable	thousands	p 5,219	r 5,215	r 5,293	5,352	5,415	5,526	5,494	5,143	+0.1	+1.5
Average weekly hours											
All manufacturing	number	p 39.9	r 40.3	40.5	39.9	40.3	40.3	40.5	40.0	−1.0	−0.25
Durable	number	p 40.5	r 41.0	41.1	40.1	40.9	40.7	40.9	40.3	−1.2	+0.5
Nondurable	number	p 39.0	r 39.4	39.8	39.6	39.5	39.8	40.0	39.4	−1.0	−1.0
Average hourly earnings											
All manufacturing	dollars	p 2.28	2.29	2.27	2.23	2.21	2.22	2.19	2.20	−0.4	+3.6
Durable	dollars	p 2.45	r 2.46	2.43	2.38	2.36	2.36	2.35	2.36	−0.4	+3.8
Nondurable	dollars	p 2.05	2.05	2.04	2.03	2.02	2.03	2.00	1.98	0	+3.5
Average weekly earnings											
All manufacturing	dollars	p 90.97	r 92.29	91.94	88.98	89.06	89.47	88.70	88.00	−1.4	+3.4
Durable	dollars	p 99.23	r 100.86	99.87	95.44	96.52	96.05	96.12	95.11	−1.6	+4.3
Nondurable	dollars	p 79.95	r 80.77	81.19	80.39	79.79	80.79	80.00	78.01	−1.0	+2.5
Straight time hourly earnings (estimated)											
All manufacturing	dollars	p 2.22	2.22	2.20	2.17	2.14	2.14	2.12	2.14	0	+3.7
Durable	dollars	p 2.37	r 2.37	2.34	2.31	2.28	2.28	2.27	2.29	0	+3.5
Nondurable	dollars	p 2.01	2.00	1.99	1.98	1.97	1.98	1.95	1.94	+0.5	+3.6
urnover Rates in Manufacturing (BLS)											
Separations	per 100 employees	p 2.9	r 2.9	3.1	4.1	4.7	4.3	3.7	2.6	0	+11.5
Quits	per 100 employees	p 1.0	1.0	0.9	1.0	1.4	2.2	1.8	0.8	0	+25.0
Layoffs	per 100 employees	p 1.4	1.3	1.7	2.6	2.8	1.5	1.4	1.3	+7.7	+7.7
Accessions	per 100 employees	p 2.9	r 3.6	3.8	3.0	3.1	3.9	3.9	3.3	−19.5	−12.1

[1] The following eight industries also exclude Alaska and Hawaii. *p* Preliminary. *r* Revised. A Less than .05%. n.a. Not available.

Briefs on

PERSONNEL PRACTICES

Novel Selection Plan Utilized

An employer in Hawaii recently decided to find a man from the outside for an important position in his organization. Part of the selection process was a bit novel and may be of interest to other employers, particularly those drawing new manpower from distant points.

Letters and calls to friends brought in a number of recommendations and just as many resumes. On paper, fourteen of the candidates seemed to meet the specifications that had been established for the position. The employer flew to the mainland and interviewed these individuals.

The two top applicants expressing a strong interest in being considered were invited to Hawaii. This was much more than an invitation to make a fast trip to the islands on someone else's expense account. It was at this point that the novel selection idea was used.

Each candidate, at different times, spent ten days at the firm, keeping regular office hours. Thus, he became acquainted with the staff with which, if successful, he later would be associated, and the staff became acquainted with him.

The choice—which was a difficult one in this instance because each man was regarded as outstanding—was made after the second candidate had completed the ten-day period.

Australian Living Standards on the Rise

In the last twenty years, Australia's standard of living has increased by more than 50%, according to B. Allsop, federal president of the Australian Council of Salaried and Professional Associations. Mr. Allsop made this statement in presenting his organization's case at an inquiry into the effects of automation on industry. Automation, technological changes, higher efficiency, and the development of natural resources, he said, had caused living standards to rise. What's more, he predicted that by 1970 there would be a further increase of 50% over the present.

Separate Labor Contract for Seasonal Employees

The seasonal employees of The American Tobacco Company still have their own separate collective bargaining agreement. When their old agreement ran out the first of this year, it was renewed in negotiations between the company and the six Tobacco Workers' locals with whom it bargains.

In addition to covering such standard labor contract provisions as holiday pay and a grievance procedure, the separate agreement commits the company to continue to give preference to seasonal employees when regular jobs become available, provided management feels that "such employees are qualified to do the work required in such new jobs."

Another special provision offers an incentive bonus to encourage regular attendance. Seasonal employees who work at least 90% of the time work is available to them get an extra 10% added to their earnings for the season. If they had also achieved this 90% attendance record the previous season, their incentive bonus is raised to 15%.

Job Opportunity Form

The Long Island Lighting Company has devised a form that permits its employees to be considered for any posted job opening on the basis of their *current* qualifications. As a job vacancy occurs, notice of the opening is posted on the bulletin board in each of the company's 150 or so locations. Employees who feel they are qualified to fill the vacant job can ask their supervisors or the personnel department for copies of the following application form:

APPLICATION FOR JOB VACANCY

(TO BE COMPLETED IN APPLICANT'S OWN HANDWRITING)

LONG ISLAND LIGHTING COMPANY

Personnel Department Date ________
Hicksville Office Building

I wish to apply for the job of__________
located at______, published as ☐ Physical, ☐ Clerical
Job Opening No._______and closing on_______.
A statement of my education and related experience follows:

Education: ________________________________

Related Experience: ________________________________

Special Training, if any: ________________________________

If this is an application for a lateral transfer or a lower classification, please state reason: ________________________________

Present classification ________________

Dept. ________________

Division ________________

Section ________________

Location ________________

Supervisor ________________

Name ________________

(PLEASE PRINT)

____

(SIGNATURE)

A copy of all applications must be sent to the Business Manager of your union. [Local 1049, IBEW for physical jobs; Local 1381, IBEW for clerical jobs]

Should a member of either union apply for a job in the other union, a copy of this application must be sent to both Business Managers.

FOR PERSONNEL DEPT. USE

INTERVIEWED BY ________________

________________ DATE ________________

NOTIFIED: APPLICANT (DATE) ________________

LOCAL # ________________ DATE ________________

FC-3850

Applicants are instructed to complete two copies of this form and to forward one copy to their union office and the other copy to the personnel department before a specified date. The day after that date, the personnel department advises the applicant's union and his supervisor of his interest in the job vacancy. Then it screens the applications and interviews all qualified applicants, giving the senior qualified applicant preference if other factors are equal. When the final selection is made, a notification letter is written to each individual applicant. Copies of these individual letters are also sent to the interested unions. In this way, both the unions and the company feel all applicants are given full consideration for promotion opportunities.

A "Binge" Benefit—On Ice!

Some brewery workers enjoy an unusual fringe benefit. Their labor contracts require the company to supply them with free beer while they are on the plant premises. As a rule, the qualification is added that the distribution of the beer will be subject to such rules and regulations as the company deems appropriate.

One free-beer clause, however, contains an explicit promise that raises some interesting speculation as to what was said between the parties before the accord was reached.

It reads: "An effort will be made by the employer to chill the beer."

Paid-Leave Practices in Manufacturing in 1958

Hours of paid leave accounted for 6% of the total hours for which production and related workers in the nation's manufacturing industries received wages during 1958, according to the Bureau of Labor Statistics. The 6% figure is broken down in this way: vacations, 3.6%; holidays, 2.2%; and sick leave, 0.2%. Other forms of paid leave—such as military, jury, witness, voting, and personal leave—together represented less than 0.1% of the total hours paid for.

Among the twenty-one major industry groups studied by the BLS, the ratio of paid leave to total hours ranged from 10% in the petroleum and coal products group to 2.9% in the lumber and wood products group. Nearly a fourth of the production workers in the latter group, incidentally, were employed by establishments that provided no paid leave in 1958. In most of the industry groups, on the other hand, less than 2% were employed in establishments that granted no paid leave in 1958.

Paid vacations were granted to at least some workers in establishments that employed 95% of the total work force. In close to half the cases, vacation hours accounted for between 3% and 5% of the total paid hours. As for paid holidays, they were enjoyed by almost 90% of the workers. More often than not, holiday hours accounted for between 2% and 3% of the total payroll hours.

Cafeteria Courtesy

Chivalry may not be dead; but, nowadays, it seems to have limits. Some of the female employees of a manufacturing company apparently exceeded those limits when they "reserved" tables in the company cafeteria by parking their belongings on empty chairs before lining up for food. This brought so many complaints from the male employees that the company, after an investigation, saw fit to add the following to its personnel procedures manual:

> "Cafeteria—First Come, First Served: Tables are not reserved. Ladies cannot claim priority to any table(s) by leaving their purses or other articles on them prior to taking their place in the line for meals.
>
> "Any staff member is entitled to use an unoccupied table and give to the cafeteria foreman or cashier any articles left or found at a table."

Labor Press Highlights

Industrial Union Department Reorganized

IMPORTANT staff changes in the Industrial Union Department of the AFL-CIO have been announced by the department's president, Walter P. Reuther, and its secretary-treasurer, James B. Carey. Details were carried in articles appearing in many union newspapers, including the *AFL-CIO News*.

According to a statement by Mr. Carey, these changes were designed to "revitalize and intensify" the department's services to affiliates[1] within the framework of the IUD constitution and in a manner consistent with established AFL-CIO policies.

Two new executive posts have been created and filled, it is reported. Nicholas Zonarich will serve as organizational director, coordinating IUD's activities in the areas of organization, collective bargaining, strike assistance, and internal organizational problems, including any that arise under the AFL-CIO no-raiding agreement and the agreement between the IUD and the Building Trades Department. Jacob Clayman has been appointed administrative director, coordinating activities in the field of legislation, education, research, public relations, publications and Social Security.

Al Whitehouse, who has directed IUD's activities since its establishment in 1955, will return to his former position as a regional director for the United Steelworkers.

A Recession in 1961?

At its midwinter meeting, the AFL-CIO executive council issued a statement saying that heavy production, along with the high-interest, tight-money policies of the Eisenhower Administration, and large-scale buying on credit this year are likely to combine to slow down the economy next year, reports *The Machinist*, the journal of the International Association of Machinists. According to the labor paper, the AFL-CIO executive council warned that "this combination of factors makes a recession in 1961 a very great possibility."

Echoing this viewpoint, *Labor's Economic Review*, published by the AFL-CIO, adds that "many conservative business and university economists predict a recession in 1961, following a slowdown in the rise of sales, production, and jobs after the early months of 1960."

Labor Editors Comment on Losses in Union Membership

A Bureau of Labor Statistics' survey of union membership trends in the United States in 1958 has prompted a spate of union newspaper editorials.

What stands out clearly, says *The Electrical Workers' Journal*, is that in spite of population gains in the United States, the upward trend in union membership which started in 1933 has been reversed. The newspaper reports:

> "The fact is, there was a drop of 400,000 union members between the years 1956 and 1958. And while no studies have yet been made to ascertain whether this trend is continuing into 1960, there is no doubt in the mind of anyone, particularly in the minds of labor union officers, that such is the case. The year-end membership surveys of our national and international unions affiliated with the AFL-CIO were most discouraging and with a very few exceptions, all showed a drop."

In discussing the reasons for the decline, *The St. Louis Labor Tribune* mentions: (1) the 1957 recession which meant that fewer people were employed; (2) automation, which has had the effect of eliminating jobs while increasing production; and (3) foreign competition that "is taking over some of our home markets." It notes also that union organizers "have found it much harder to organize white collar workers" whose numbers are increasing rapidly and concludes:

> "But whatever the reasons, organized labor has a big job cut out for it. The white collar field must be organized to assure wider distribution of national production in this automated age of plenty."

The International Operating Engineer agrees that "the labor movement has a big job ahead of it doing more effective organization in the white collar trades than it has done in the past." But it points to another area where more organizing work is needed:

> "Without being critical of the job which has been done among women, one must conclude that the labor movement must do a better job . . . now that almost one-third of the labor force is composed of women."

To deal with the problem of declining membership,

[1] IUD affiliates are in large part unions which once made up the old CIO. However, it also includes some former AFL unions which have a degree of "industrial" organization.

John Livingston, AFL-CIO director of organization, has recommended a stepped-up program that embodies the following features, reports the *Allied Industrial Worker.*

1. Labor, especially the large international unions, must step up organizational campaigns.
2. Efforts should be made to overcome "conflicts of interest" among unions in organizational drives so that the AFL-CIO organizational department will be free to step in and help.
3. Meetings of organizers at the local level should be increased.
4. The next meeting of the AFL-CIO executive board should devote a full day to developing strong organizational plans.

Office Employees to Publicize Automation Findings

The Office Employees' International Union has appointed a committee to study and publicize automation developments affecting office employees, says *White Collar,* the union's journal. The committee is composed of President Howard Coughlin and two other officials of the international. It was formed in response to a resolution submitted to the union's convention and referred to the executive board.

The article also includes information on new types of automated office machinery, with special attention to "a striking example" from the banking industry that illustrates the possibilities of this type of equipment. This new electronic machine, says *White Collar,* can process 900 checks per minute and can register in its "memory" data pertaining to 40,000 separate accounts. In a single automatic operation, the device is able to sort checks of different sizes, register the amounts, add the sums, and make a statement of the account of each client.

Cement Workers See Peril to Contract Rights

In an article in the *Voice,* the Cement Workers' magazine, President Felix C. Jones warns that management can be expected to continue its assault upon the "hard-won, vital provisions of many union contracts." He sees no sign of abatement in the drive to change seniority rights, working schedules, working rules, and other established conditions of employment. The campaigns are being waged, he notes, "under the guise" of eliminating "featherbedding," removing wasteful practices, and restoring management's right to manage.

Mr. Jones reminds cement workers that in 1959 the industry "submitted contract provisions designed to restrict or impair seniority rights." The union leader asserts further that: "These proposals generally involved two points: (1) The complete loss of seniority rights in cases where an employee was laid off for a period of two or more years; and (2) lengthening the probationary period of new employees—a period during which an employee has no seniority rights.

Since a majority of cement contracts will not come up for renewal until 1961, (in view of their two-year terms) President Jones wants 1960 to be a year of preparation for struggle.

Negro Labor Council to Hold First Convention

A. Philip Randolph, president of the Brotherhood of Sleeping Car Porters and an AFL-CIO vice-president, has been appointed temporary chairman of the founding convention of the Negro American Labor Council. The convention is scheduled to take place on May 28-29, in Detroit, Michigan.

According to *The Black Worker,* official monthly of the brotherhood, NALC supporters expect more than 2,000 trade unionists to attend. The new organization will seek to enlist all Negro trade unionists as members, accepting them on an individual basis and not as representatives of other unions. The newspaper reports that units of NALC have been established in a number of cities, including New York, Detroit, Pittsburgh, Chicago, Atlanta, and St. Louis.

The new labor organization has been created, says the Porters' journal, as a result of the "continued general exclusion of the more than 1,500,000 Negro trade unionists from the program and policy-making bodies of the trade unions in which they are involved."

UAW Reports on Strike Fund

The March issue of *Solidarity,* organ of the United Automobile Workers, contains a report on the union's strike fund for 1959, listing the amounts received from seventeen regions.

At the end of the year, the strike fund balance was $20,303,417.26. The fund had paid out $12,786,950.69, of which $49,126.80 was in connection with the Kohler boycott.

In January, 1960, strike fund income was $1,377,-583.45 and disbursements were $89,350.24. At the time the report was made, thirteen strikes, involving 905 members of the UAW, were in progress.

JOHN J. MCKEW
Division of Personnel Administration

Work Measurement—The fundamental principles and techniques of work measurement and their practical application to today's industrial problems are presented in this book. Condensed subject matter ranges from reasons for work measurement to establishment, use and maintenance of work standards. *By Virgil H. Rotroff, Reinhold Publishing Corporation, New York, New York, 1959, 203 pp., $4.85.*

Wage and Fringe Developments in Bargaining

A ten per cent pay cut was negotiated in the union's effort to help the company resume profitable operations. Three other settlements are reported on

BY AGREEMENT with the UAW, the Lloyd Manufacturing Company of Menominee, Michigan has cut pay rates 10%. Voting by secret ballot in a special election, the union agreed to take the pay cut in an effort to help the company resume profitable operations. An official of the company indicated that salaried workers would be asked to take a similar cut.

Earnings under the new agreement are computed on the same basis as under the old contract, after which the 10% reduction is made. But the new contract permits a previously negotiated increase of 1% on piece work and 2 cents an hour on day work to go into effect before the 10% cut is applied. Along with the reduction in pay, employees accepted a one-year freeze on the 32-cent cost-of-living allowance. Under the old contract, the company's average factory rate was $1.99 an hour as compared with an industry average of about $1.85.

Following the agreement, a release issued jointly by the company (a subsidiary of Haywood-Wakefield Company in Gardner, Massachusetts) and the union stated:

> "We consider this bargaining accomplishment by the company and the union as a sincere effort by labor and management to solve competition and financial problems. We have complete faith that the acceptance of the wage adjustment will contribute substantially toward the resumption of profitable operations, in which both the employees and the company have important stakes. The vote by the union membership is indicative of mutual understanding between labor and management at a time when utmost cooperation is vital to all concerned."

Layoff Procedure in Paper Contract

The recent contract between the Oxford Paper Company and the United Papermakers and Paperworkers' union contains seniority provisions and promotion procedures designed to maintain efficient production and to encourage the advancement of qualified employees. Under the new contract, emphasis is placed on job seniority, not on department or mill seniority. Thus, since the employee is not affected by cutbacks which occur at lower levels, he acquires more security with every promotion.

If an employee's job is eliminated, his bumping rights under the contract apply only to the jobs which he formerly held. For example, assume that a worker's employment record with the company is as follows:

Jan. 1, 1950 .... Hired as a spare
Jan. 1, 1952 promoted to job #1, layboy tender
Jan. 1, 1954 promoted to job #2, washer & blow pit
Jan. 1, 1956 promoted to job #3, digest cook, 2nd helper
Jan. 1, 1958 promoted to job #4, digest cook helper

Now suppose that on January 1, 1960 job #4, digest cook helper, was eliminated. In this hypothetical case, the employee goes back down the same ladder by which he came up, bringing with him his accumulated job seniority. He would bump first to job #3, digest cook, second helper, and his job seniority in that occupation would be from January 1, 1956, or four years. This job seniority would be compared with others at the same level, and the employee with the least seniority would then bump down to job #2, washer and blow pit. The employee on that job with the least accumulated job seniority would bump down to job #1, layboy tender, and the junior employee serving as layboy tender would become a "spare."

An employee cannot bump laterally, nor can he be promoted as a result of a layoff. Also, skilled jobs are protected against bumping by employees with greater seniority who have parallel or lower jobs.

Under the contract, entrance jobs occupy the lowest level for regular employees. A spare worker is employed for assignment to temporary work or as replacement for a regular employee.

When a regular employee with more than five years' mill seniority is laid off for lack of work and becomes a spare, he can get certain entrance jobs by bumping employees with less than three years' seniority.

In addition to providing employees with added incentive for advancement, the contract's layoff procedure has the advantage of creating the least disruption in production during slack periods. While employment in the paper industry is relatively stable, when layoffs do occur, the list of spare employees serves as a cushion, and senior employees have little difficulty in receiving temporary assignments (as replacements for absent employees) until they receive another job bid.

Significant Pay Settlements

Company, Union[1] and Duration of Contract	Pay Adjustments	Fringe Adjustments
	DURABLE MANUFACTURING	
nerican Brass Co. with *AW* in Waterbury, Conn. 1,596 hourly Retroactive to 10-15-59. Contract expired New contract: 2 years. Wage reopening 10-15-60	7¢ per hour general increase; additional ½¢ to 3½¢ per hour classification adjustments	No change
d with *AW* in Detroit Mich. Approximately 575 Retroactive to 10-15-59. Contract expired New contract: 2 years	5¢ per hour general increase Deferred increase: Additional 6¢ per hour effective 10-15-60	No change
W. Bliss Co. with *elworkers* in Canton, Ohio. Approximately 00 hourly Effective 3-1-60. Contract expired New contract expires 9-1-62	No immediate wage increase Deferred increase: 7¢ per hour general increase 12-1-60, plus 0.2¢ increment between job classes. Additional 7¢ per hour increase 10-1-61, plus 0.1¢ increase in job-class increments; cost-of-living adjustment limited to a maximum of 3¢ an hour 12-1-1960 and additional 3¢ in 1961; cost-of-living adjustments subject to insurance costs	Revised: Pension and insurance plans similar to basic steel agreement
F Industries, Inc. with *elworkers* in Philadelphia, Pa. Approximately 00 hourly Retroactive to 10-59. Contract expired New contract: 2 years	7¢ per hour general increase Deferred increase: 7¢ per hour effective in 1960 and 1961	Added: 1 holiday Revised: Life insurance benefits; funeral leave pay; military reserve leave
rew & Bolt Corporation of America with *elworkers* in Mt. Pleasant and Monaca, Pa. d Gary, Ind. Approximately 1,300 hourly Retroactive to 1-6-60. Contract expired 7-31-59 New contract expires 9-30-62. Wage reopening 9-15-60 and 9-15-61	No general increase; existing 17¢ per hour cost-of-living adjustment continued (no further upward adjustment during contract term)	Revised: Pension and insurance plans similar to basic steel agreement
hitney Chain Co. with *AW* in Hartford, Conn. 541 hourly Effective 1-1-60. Contract expired New contract expires 12-31-60	11¢ per hour general increase	Revised: Funeral leave provisions; vacation schedules; increased pension benefits for future retirees
	NONDURABLE MANUFACTURING	
nerican Oil Co. with *AW* in Texas City, Tex. 1,240 hourly Effective 1-8-60. Contract expired 6-30-59 New contract expires 6-30-61. One wage reopening on 60-day notice during term of agreement	No general increase	Revised: Funeral leave clause; holiday pay
sociated Garment Industries with *GWU* in St. Louis, Mo. Approximately 2,000 urly Retroactive 2-5-60. Contract expired New contract: 3 years	6½% general increase on piece rates; 6½% increase for time workers (with 25¢ minimum increase for cutters and 10¢ minimum increase for all other time workers) Deferred increase: Additional 7% increase on piece rates and 7% increase for time workers after 2 years	Added: Severance pay fund financed by employer contribution of ½% now, 1% later Revised: Employer contributions for retirement and health benefits
deral Glass Company (Division of Federal per Board Co.) with *permakers and Paperworkers* in Columbus, O. 0 hourly Effective 1-1-60. Contract expired New contract: 2 years	3% general increase (to nearest ½¢), plus additional 2¢ an hour. Several maintenance men receive additional 7¢ an hour Deferred increase: 3% general increase, to nearest ½¢, plus 2¢ increase in shift differential effective 1-1-61.	Added: Half holiday (Dec 24 now a full paid holiday)

Significant Pay Settlements—continued

Company, Union[1] and Duration of Contract	Pay Adjustments	Fringe Adjustments
Miller Brewing Company with *Office Employees* in Milwaukee, Wis., 200 salaried Effective 3-1-60. Contract expired New contract: 2 years	3.5% general increase Deferred increase: Additional 3% 3-1-61	Added: 11th paid holiday Revised: Vacation schedule
New York Employing Printers Assn. (Printers League Section) with *Printing Pressmen* in New York, N. Y. 5,000 hourly Retroactive to 12-1-59. Contract expired New contract: 27 months	11¢ per hour general increase Deferred increase: 11¢ per hour effective 12-1-60	Added: 3 days' paid funeral leave; jury duty p Revised: Health & Welfare plan
Norwich Pharmacal Co. with *Chemical Workers* in Norwich, N. Y. 450 hourly Effective 1-1-60. Contract expired New contract: 1 year	8½¢ to 11½¢ per hour general increase	Added: Company provides uniforms and laund for employees not previously covered Revised: Funeral leave
S. B. Penick & Co. with *Chemical Workers* in Newark, Jersey City, Lyndhurst and Montville, N. J. Approximately 340 hourly Effective 2-1-60. Contract expired New contract: 2 years	8¢ per hour general increase Deferred increase: 6¢ per hour effective 2-1-61	Added: New pension plan financed by compa contribution of 5¢ per hour effective 2-1-6 going to 7¢ by 1965; ½ holidays on Christm and New Year's Eves Revised: Hospitalization; life and tempora disability insurance; vacations
	NONMANUFACTURING	
San Francisco Retailers Council with *Operating Engineers* in San Francisco, Cal. 25 salaried Retroactive to 9-1-59. Contract expired New contract: 2 years	17½¢ per hour general increase for watch engineers, raising hourly to \$2.82½; \$1.50 supper allowance when store is open to public, and employees work after 6:30 p.m. Deferred increase: Additional 17½¢ per hour effective 9-1-60	

[1]All unions are affiliated with the AFL-CIO unless otherwise indicated.

Contract Compensates for Christmas Eve Holiday

In previous contracts between the Whitney Chain Company and the United Automobile Workers, a half holiday was granted for Christmas Eve and New Year's Eve. This year, however, Christmas and New Year's Day fall on Sunday, and the company's five-day workweek precludes Saturday holidays. But in order to retain the accustomed seven holidays, the contract makes Washington's Birthday, normally a working day, a paid holiday for this year.

The contract also liberalizes vacation pay for employees with twenty or more years' service. These employees will continue to get a three-week vacation, but a fourth week's pay will be added.

The contract provides a general wage rise of eleven cents an hour, and increases normal retirement benefits for future service from \$2.25 to \$2.40 per year of credited service. The funeral leave clause has been amended to cover the death of mothers- and fathers-in-law.

Contract Liberalizes Tuition Refunds

The R. M. Hollingshead Corporation and the International Chemical Workers Union recently signed an agreement that broadens the tuition refund program for employees. The program is designed to assist employees in acquiring greater knowledge of their jobs and to promote efficiency.

Under the tuition plan employees are reimbursed for tuition expense and laboratory fees in proportion to their academic success. If any employee receives a grade of A, the company will assume the entire tuition expense; if he earns a B the company pays 85% of the cost; and if the employee merely passes, the company will reimburse him for 75% of the tuition cost.

In order to qualify for reimbursement of tuition payments, the employee must obtain approval from his supervisor and the industrial relations department before attending the course. The courses must be related to the employee's job duties or to possible future jobs that he may reasonably be expected to obtain while employed by the company.

In addition, the plan also provides for company payment of full tuition and laboratory costs for any course taken at the direction of management.

Other changes in the new agreement include a wage increase of 8 cents an hour the first year and an additional 6 cents the second year. Vacation provisions are liberalized to permit three weeks after twelve years' service.

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Division of Personnel Administration

Studies in Business Policy

In the April Business Record

Directors' Compensation and Retirement—Directors' fees have shown a slight increase during the past two years, according to reports from 285 cooperators in this latest addition to the Board's continuing study of directors' compensation. About one in six of the responding companies has increased the per meeting fee paid to directors; annual retainers are also becoming more widespread. A trend toward compulsory retirement of directors is discernible, although formal retirement programs remain the minority practice among the firms surveyed.

Capital Appropriations: High and Steady—The recent high rate of capital appropriations was maintained in the fourth quarter of 1959, but there was little sign of further advance. New appropriations rose 40% over their year-earlier level for the fourth consecutive increase, but the fourth-quarter gain was smaller than those posted in the two preceding quarters. This fifteenth report in the Board's quarterly survey of the 1,000 largest manufacturing companies, sponsored by "Newsweek," draws upon data for 586 cooperating firms.

Steel, Autos Buttress Metalworking Appropriations—Substantial appropriation gains in the basic iron and steel and motor vehicle industries were responsible for an appreciable increase in metalworking appropriations in the fourth quarter of 1959. Total approvals were 55% above the year-earlier amount. Appropriations for 1959 as a whole exceeded the 1958 total by about 95% and rose one-sixth above their 1957 level. In the fourth quarter, however, approvals in the metalworking industries outside basic steel and motor vehicles continued the deceleration begun in the preceding quarter.

Business Highlights: In Search of a Trend—The second quarter of 1960 is about to witness a "tug of war" between business sentiment and underlying trends, with the latter stronger at present. Owing in part to severe winter weather and in part to the impact of falling securities prices, spending in both the personal and business sectors during much of the first quarter was not commensurate with the available income flow. And a considerable spread between bond and stock yields, normally associated with inflationary expectations, persists at a time when the expectations themselves appear to have weakened. First-quarter figures, however, show business conditions on the whole quite good.

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